The Economist

February , 2011



Politics this week

Feb 17th 2011 | from the print edition



President Hosni Mubarak of **Egypt** stepped down after 18 days of occasionally violent protests and handed power to a group of senior military men, who said they would oversee the writing of a new constitution. Elections are to be held within six months, raising hopes that Egypt could become a genuine democracy. See article

The toppling of Mr Mubarak inspired political upheavals in several other Middle Eastern countries. In **Yemen** the government tried to stem unrest by deploying thousands of extra policemen; security forces in **Algeria** and **Libya** clashed with demonstrators; and police broke up a democracy camp in **Bahrain's** capital, killing several people. See article

Almost two years after the **Iranian** government suppressed a popular rebellion, protesters returned to the streets of Tehran. Police stopped leading opposition figures, including Mir Hossein Mousavi, from joining them. See article

The forces of a rebel general in **South Sudan**, who last month agreed to a peace deal with the regional government, massacred more than 200 people near the border between Sudan's north and south.

In hock for the future

The White House set out its **budget** plan for the next fiscal year, which proposes $1.1 trillion in spending cuts and tax increases over the next ten years. A deficit of $1.6 trillion, or 11% of GDP, was forecast for this year. The budget predicted big deficits every year for at least the next decade. See article

The annual Conservative Political Action Conference (CPAC) took place in Washington, DC. Among other things, the event allows **Republican activists** to assess their putative presidential candidates. Ron Paul, a congressman and darling of the libertarian right, won a straw poll for the second consecutive year. Mitt Romney, considered an early front-runner for the nomination, came a respectable second. Sarah Palin got 3%.

A fight to the debt

Brazil's president, Dilma Rousseff, won a vote to limit an increase in the minimum wage to last year's inflation rate, the first battle in her government's effort to rein in the fiscal deficit and curb inflation. See article

Mexico suffered more drug violence. The top intelligence official in the northern city of Monterrey was murdered. An American immigration agent based in the United States embassy in Mexico City was shot dead and another wounded, as they drove to Monterrey.

Officials in Buenos Aires seized equipment from a United States military cargo plane that the Americans said had been authorised for use in training local police. **Argentina's** government has been irritated by leaked cables in which American diplomats refer to widespread official corruption in the country.

Peru's polling companies suspended opinion polls for April's presidential election in protest at a ruling by the electoral authority requiring them to obtain the personal details of those they interview. The latest polls give Alejandro Toledo, a former president, the lead on around 28%.

The World Bank said that surging **food prices** have pushed an extra 44m people worldwide into extreme poverty, which can often be a precursor to malnutrition. The number of undernourished people could rise to more than 1 billion this year.

Trading partners

Visiting Tokyo, **India's** minister of commerce signed an economic pact with **Japan** that lifts tariffs on many goods and services. The countries aim to more than double bilateral trade by 2014. They also discussed India's rare-earths industry; Japan currently depends on Chinese imports of the minerals.



Japan suspended its annual **whale hunt** in the Antarctic, after vessels from the Sea Shepherd Conservation Society hounded one of its whalers. Japanese officials, who call Sea Shepherd a "terrorist" outfit, say that the manoeuvres have made it impossible to catch whales safely.

Barack Obama waded into the row surrounding an employee at the American consulate in Lahore, who was detained for killing two men. Mr Obama insisted that Raymond Davis, a former member of the special forces, has diplomatic immunity and should be returned to American custody. Most **Pakistanis** want Mr Davis to stand trial. He says the men he shot were attempting to rob him.

The Philippines' government started a week of negotiations with communist rebels. The two sides met in Norway with the aim of ending an insurgency that has raged across the poorest parts of the Philippines for more than 40 years. Awkwardly, the Philippine army captured an important guerrilla leader just before the start of a week-long ceasefire.

Myanmar's state media issued its first criticism of Aung San Suu Kyi since her release from house arrest last November. A newspaper cautioned that she and her party would "meet their tragic ends" if they persisted in supporting sanctions against Myanmar.

See you in court

A judge indicted **Silvio Berlusconi**, Italy's prime minister, on charges of paying for sex with an underage prostitute and abusing his power. The trial is due to start on April 6th; all three judges will be women. Mr Berlusconi denies any wrongdoing. See article

In a referendum the Swiss voted against a proposed ban on keeping army rifles at home. Gun-ownership rates in **Switzerland** are among the highest in the world, partly because ex-conscripts are allowed to retain army-issued weapons.

The judge who convicted **Mikhail Khodorkovsky**, a Russian oil magnate, for theft and money-laundering in December was acting under orders, said a court official. Natalia Vasilyeva, an assistant to the judge, Viktor Danilkin, said his verdict was written by Moscow city court. Mr Danilkin said the allegations were slanderous. See article

Several thousand **Tunisian migrants** arrived on Lampedusa, a small Italian island off north Africa. The Italian government asked for help. See article



Michele Alliot-Marie, **France's** foreign minister, again found herself in hot water over her links to the ousted Tunisian regime. After admitting that she had taken flights on a jet owned by Aziz Miled, a businessman linked to the former president, she defended a property deal involving Mr Miled and her parents.

Business this week

Feb 17th 2011 | from the print edition

NYSE Euronext and **Deutsche Borse** agreed to merge. If the deal is consummated it will create the world's largest trading platform for shares and derivatives. Shareholders in the German exchange will own 60% of the new company, but senior American politicians seemed fairly relaxed about the prospect of the New York Stock Exchange being incorporated in an enterprise where it would hold a minority stake. Speculation mounted that a rival bid for either business could emerge.

China officially passed **Japan** to become the world's second-biggest economy when Japan said its GDP was worth $5.5 trillion in 2010. China's amounted to $5.9 trillion.

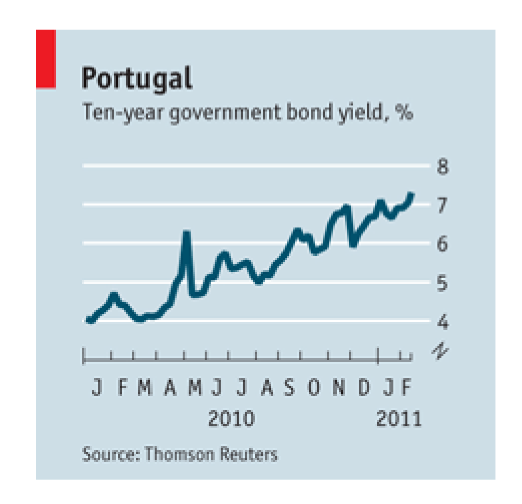
In China the rate of **inflation** rose again, to 4.9% in January, which was less than had been forecast. Meanwhile, China said imports of copper, iron ore and oil had accelerated in January. Imports of iron ore reached a record 69m tonnes, up by 48% from a year earlier. See article

Britain's inflation rate also crept up again in January, to 4% or double the Bank of England's target. The guessing game intensified about when the central bank would raise interest rates. See article

Farewell to Fannie and Freddie

America's Treasury Department issued a report in which it proposed the eventual elimination of **Fannie Mae** and **Freddie Mac** and laid out options for reducing the role of government in mortgage financing. The report admitted that Fannie and Freddie had "strayed" from their core business of promoting sustainable home ownership when they extended credit to riskier borrowers. The Treasury now foresees government's role in housing limited to "robust oversight", consumer protection and targeted assistance for poor households; it wants the private sector to "bear the burden of losses" in the sector.

Jens Weidmann, Angela Merkel's chief economic adviser, was picked to be the next president of Germany's **Bundesbank** after the surprise decision by Axel Weber to step down in April. Mr Weber had been the putative front-runner to succeed Jean-Claude Trichet as head of the **European Central Bank**. A new favourite soon emerged for that job: Mario Draghi, the governor of Italy's central bank. See article



The yields on **Portuguese government bonds** rose to settle above 7%, the mark at which Portuguese officials have said the country's borrowing costs would be unsustainable. Portugal's finance minister criticised his colleagues after a meeting in Brussels for dithering over the details of expanding the euro-area's bail-out fund, saying the delay was harming the currency block.

An investment firm offered to buy **Family Dollar** for $7.6 billion. Cheap retailers are hot in America, while the economy is not.

Paranoid Android

Investors gave a cool reception to **Nokia's** announcement of "a broad strategic partnership" with **Microsoft**. The Finnish mobile-phone company, which has lost ground to Apple and Google in the smartphone market, is adopting Windows Phone as its primary platform for smart devices, displacing its own Symbian software. Eric Schmidt, **Google's** boss, revealed that his company had talked extensively to Nokia about adopting Google's Android platform.

A court in **Ecuador** ordered **Chevron** to pay $9.5 billion for alleged environmental and social damage to Ecuador's Amazon region caused by Texaco, which Chevron took over in 2001. The oil company has accused the plaintiffs' lawyers of using "a strategy of fraud". Courts in New York and The Hague have issued orders that suspend the enforcement of any judgment against Chevron in the case, which has been rumbling on since 1993. See article

Sanofi-Aventis, a French drugs group, claimed victory in its six-month pursuit of **Genzyme**, an American biotech company, when its improved takeover offer of $20.1 billion was approved by Genzyme's board.

Borders filed for bankruptcy protection, as it struggles to pay big publishers. It is to close 200 underperforming bookstores over the coming weeks. Borders is often said to have mishandled the challenge from online competition. It did not open its own e-commerce website until 2008 (before that it had paired up with Amazon) and introduced an e-reader only last year.

Something to ponder

Google launched a payment system that enables publishers to charge for online content through its operating platforms. Google announced its One Pass system the day after **Apple** set out its conditions for subscriptions sold through its App Store, for which it will take a 30% cut. Google will retain 10% of the payments and give media companies more control over subscriber data than Apple would.

Index | The world this week

Daily Chart

Feb 17th 2011 | From *The Economist* print edition



Index | Leaders

The Arab world

The awakening

Feb 17th 2011 | from the print edition

As change sweeps through the Middle East, the world has many reasons to fear. But it also has one great hope



Getty Images/The Economist

THE people of the Middle East have long despaired about the possibility of change. They have felt doomed: doomed to live under strongmen who have hoarded their wealth and beaten down dissent; doomed to have as an alternative only the Islamists who have imposed their harsh beliefs-and beaten down dissent. In some places, like Saudi Arabia and Iran, the autocrats and the Islamists have merged into one. But nowhere has a people had a wholly free choice in how they are ruled. And the West has surrendered to this despair too, assuming that only the strongmen could hold back the extremists.

Two months ago a Tunisian fruit-seller called Muhammad Bouazizi set fire to these preconceptions when, in despair over bullying officials and the lack of work, he drenched himself in petrol and struck a match. Tunisians and, later, Egyptians took to the streets. Almost miraculously, the people overwhelmed the strongmen who had oppressed them for decades. In the past few days tens of thousands have marched in Tehran, braving beatings and arrest. In tiny Bahrain men have died as the security forces sprayed protesters with rubber bullets and smothered them in tear gas. In Libya crowds have risen up against a fearsome dictator. Jordan is sullen, Algeria unstable and Yemen seething (see article).

Radical Islamists have long been the Arab world's presumed revolutionaries, but these fights do not belong to them. In a region that had rotted under repression, a young generation has suddenly found its voice. Pushing ahead of their elders, they have become intoxicated with the possibility of change. As with Europe's triumphant overthrow of communism in 1989, or even its failed revolutions of 1848, upheaval on such a scale can transform societies. What does that mean for the Islamists, the strongmen and the world?

Destiny foretold

The answers begin in Egypt. Pessimists see people-power burning itself out even now. As Cairo's streets empty of protesters, the hope of genuine democracy will die, they warn, and the old inevitability will reassert itself. Once again Egypt will be left to choose between military autocracy and a stealthy electoral coup by the Islamist Muslim Brothers.

Either outcome is possible. Egypt is young, angry and poor. The country's press has only recently asserted its independence. It has somnolent universities, little history of individual dissent and no recent parliamentary tradition. Society is suffused by contempt for the West and hatred of Israel. It lacks the foundations for democracy. The Muslim Brothers are organised and patient, while the state can call on perhaps 2m police and security agents trained in violence. It will have to be the Brothers or another strongman.

Yet day after day Egypt's largely secular young protesters have peacefully defied the pessimists. Although the Muslim Brothers played their part, they came late to the show. Despite their violent past, there is a world of difference between the Brothers and al-Qaeda. Of course they want power-what political group does not? But the fear that their agents are everywhere and that they are poised to seize the throne suited Hosni Mubarak, the ousted president, as much as it did the Brothers themselves. Their threat justified his repression.

The time has come to end the grim symbiosis between the oppressor and the oppressed. Hatred of the Muslim Brothers does not justify the apparatus of state violence that catches all Egypt in its vice. The Brothers only drew strength from the darkened cell and the torturer's knife. When the Muslim Brotherhood won 20% of seats six years ago, it was the only party that presented a real alternative to Mr Mubarak. In an open contest today they might do better, but not necessarily.

Throw open the blinds

Even if they gained seats, the Brothers should be encouraged to take a full part in Egypt's political life, including in elections. Democracy cannot thrive if they are silenced. The only condition-and it is one that applies to all parties in all democracies-should be that the Brothers accept the principles behind Egypt's new constitution.

That constitution is now being redrafted under the stern gaze of the army, firmly in control once again. Indeed, right now the authoritarians look more likely to strangle Egypt's democracy than the Islamists do. Under six decades of quasi-military rule, its senior officers enjoyed perks and wealth that democracy now threatens to withhold.

Just how far the military men accommodate the protesters depends partly upon circumstance. Who runs the military council: the defence minister, Muhammad Tantawi, once a Mubarak man, always conservative and now ailing; or the chief of staff, Sami Enan, younger and closer to the Americans? Can the generals resist the temptation to smash workers striking for pay, to delay the repeal of Egypt's decades-old "emergency" law or to deflect criticism by demonising Israel?

So far, they insist that they will return Egypt to civilian rule, according to a quick timetable and with real democratic reforms. That makes sense, because the protesters' mark on Egypt cannot just be washed away like so much debris in Tahrir Square. Faced by the people, Egypt's soldiers would not shoot-instead, they saw off the police. Forced to choose, the army preferred its revered place in Egyptian society to the survival of the man at the top. Because of that precedent, the generals cannot now count on troops to use violence. Moreover, after six decades under military strongmen, generals and protesters alike know that oppression and poverty lead down a dead end. Even a self-interested army stands to gain more from a society that is more productive.



Explore our

Nobody can foresee how the forces unleashed in Tunisia will play out across the region, because each unhappy country is unhappy in its own way. Libya and Syria are more repressive than Egypt. Yemen is complicated by the prospect of secession in the south; Iran by the failed uprising in 2009. Jordan's monarch rules a country that is mainly Palestinian; Saudi Arabia and the emirates have the soothing balm of oil. Even in Iraq, which has a democratic constitution and elections aplenty, the ruling party has fought against relinquishing power.

So muddle and confusion may reign. But the outside world can play its part. Barack Obama eventually made the right choice in Egypt by backing the protesters (see Lexington). He should press rulers to bolster their regimes by reform rather than violence. America and its allies can help reformers, so long as they avoid the label that reform is made in America. Egypt needs money, infrastructure and advice on how to reform institutions, such as the courts, the press and schools and universities. The Gulf states should help stabilise Egypt with money and soothing words. The links between the American army and officers in Egypt can also help steer reform. And the West can press harder for negotiations between Israel and the Palestinians-nothing to do with these upheavals, but a source of poison in the Arab world nonetheless (see article).

The prize could be a family of new democracies: not Poland or the Czech Republic, but Turkey, perhaps, or Indonesia. Such powers do not always fall in with the West's designs. They will, for instance, be harsher on Israel than America would like. But they are better for their people and their promise of stability is worth more than a dictator's bloody cheque.

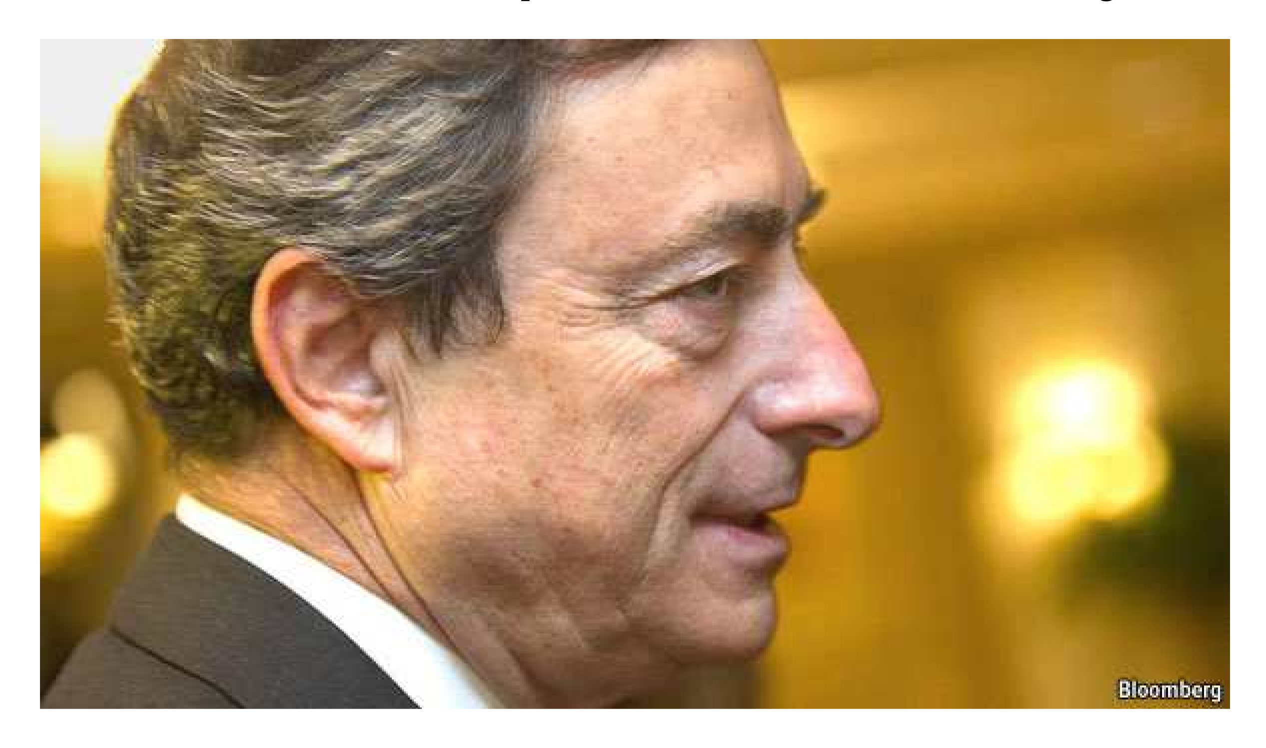
Since the millennium, democracy has struggled to dispel the fear that it cannot withstand Islamism or the economic potency of an authoritarian China (see Banyan). Egypt promises to undermine both those propositions. Authoritarianism is not the best answer to Islamism. And it rarely creates prosperity. As the Arab world awakens, a better future beckons.

The European Central Bank

The Italian's job

Feb 17th 2011 | from the print edition

The next president of the world's second-most-important central bank should be Mario Draghi


Bloomberg

EUROPE'S policymakers have a remarkable capacity to worsen their economic pain with self-inflicted wounds. Earlier this month bickering at a Brussels summit unsettled financial markets and sent bond spreads soaring. Now the future leadership of the European Central Bank is up in the air, after the sudden resignation of Axel Weber, the president of the German Bundesbank and the man who had seemed most likely to replace the ECB's current president, Jean-Claude Trichet. Mr Trichet's term ends in October. If history is a guide, the politicians could wrangle for months over his successor. Worse, judging by other recent Euro-appointments-think of Herman Van Rompuy from Belgium and Cathy Ashton from Britain, respectively the EU's president and foreign-policy chief-the ECB could end up with a compromise candidate whose passport or politics is the main qualification.

Both delay and decision-by-lowest-denominator would be a disaster. The euro zone is in the midst of its deepest crisis since the single currency was created. It cannot afford to have months of uncertainty over who will lead the ECB, let alone a second-rate choice. Europe's politicians need to set aside their desire to divvy up the main positions, overcome their national biases and simply find the best person for the job.

That should not be difficult. For on any objective assessment of who has the relevant experience and right temperament to be Europe's leading central banker, one candidate stands out: Mario Draghi, the head of Italy's central bank.

Nein to von Buggins's turn

What does it take to run the ECB? Top of the list is the technical expertise and track record to be a credible guardian against inflation. The ECB's job, as laid out in its mandate, is to maintain price stability, and its president must both lead that effort and be its public face. But being sound on inflation, while necessary, is no longer enough. In the wake of the financial crisis central banks are shifting to a broader focus on "macroprudential supervision" (see article). Tomorrow's central bankers will need to understand the complexities of financial markets and regulation better than their predecessors. Lastly, the ECB's president, perhaps more than others, needs diplomatic deftness, both to steer and then represent a consensus on the bank's 23-member governing council as well as to work with-and stand up to-Europe's fractious politicians.

Add these requirements up and Mr Draghi's resume stands out. He is an economist with stacks of experience in central banking and government finance, plus a four-year stint in the private sector. In addition to running Italy's central bank, he is chairman of the Financial Stability Board, the regulators' club spearheading international reforms of financial rules. No other candidate's CV can match his. Klaus Regling, the German head of the European Financial Stability Facility, has never been a central banker. Erkki Liikanen, head of Finland's central bank, lacks financial and regulatory experience.

So why is Mr Draghi not a shoo-in? Critics have focused on two drawbacks. First, his private-sector experience was at Goldman Sachs, a now-reviled investment bank. Second, he is Italian. His nationality upsets Europe's Buggins's-turn mentality (not least because the number two at the ECB, Vitor Constancio, is already a "southerner", from Portugal), and has fuelled fears in Germany that a Draghi-led ECB would go soft on price stability. "Mamma mia!" screamed *Bild*, a German tabloid. "For Italians, inflation is a way of life, like tomato sauce with pasta." The deepening scandal engulfing Silvio Berlusconi, Italy's prime minister, hardly helps the idea that an Italian might be a serious candidate (see article).

Both these arguments are bogus. Goldman Sachs may now be a toxic brand (and its alumni's influence on policy can give cause for concern), but there is no evidence that Mr Draghi did anything untoward there. Quite the contrary: he gained valuable financial experience. The national stereotyping is equally reprehensible. Nothing suggests Mr Draghi is soft on inflation.

Angela Merkel, Germany's chancellor and the most influential voice in Europe today, should tackle these prejudices head-on. Germany should throw its support behind Mr Draghi now, and Mrs Merkel should explain to Germans why he is the best man for the job. In this way Europe's politicians might, for once, make a bad situation better.

Index | Leaders

Governing Brazil

A promising start

Feb 17th 2011 | from the print edition

But will good administration be enough for Brazil's new president?



DILMA ROUSSEFF won Brazil's election last year less because of her own qualities than because her hugely popular predecessor and political mentor, Luiz Inacio Lula da Silva, urged the voters to choose her. Since she had never before held elected office, nobody could be sure what kind of president she would turn out to be. Some Brazilians (and this newspaper, which endorsed her opponent) worried that she might be a more rigidly ideological left-winger than the pragmatic Lula. The evidence of her first six weeks in office is reassuring.

Under Lula, Brazil saw faster growth, impressive social progress but little or no reform of burdensome taxes and red tape. Abroad, an activist foreign policy brought new clout and new criticism. Ms Rousseff came to power on a platform of continuity. But she has also inherited an overheating economy, with inflation revving up and industrialists screaming about the strength of the real. She knows that she will be judged in part on whether Brazil's airports, stadiums and transport are ready in time for the 2014 football World Cup.

Ms Rousseff is a very different person from Lula. Lacking his star quality, she has shunned the limelight. But what she has so far said and done has been clear and welcome. She has scotched notions that she would be soft on inflation. Her team has quickly signalled the need for some budget austerity after Lula's last two spendthrift years. She rightly wants to focus social policy on eliminating extreme poverty (which still afflicts about one Brazilian in ten), while improving health care and schooling. And she is right, too, to want to seek tax and political reforms, even though those prizes eluded both Lula and his predecessor, Fernando Henrique Cardoso.

The most immediate change has been in the tone of foreign policy. Lula had a penchant for embracing dictators, from Cuba's Fidel Castro to Iran's Mahmoud Ahmadinejad. Brazil's decision to vote against the UN resolution tightening sanctions against Iran's nuclear programme was particularly ill-judged and did nothing to advance its claim to a permanent Security Council seat. In contrast, Ms Rousseff has criticised repression in Iran, stressed her commitment to human rights and said she wants to "deepen" ties with the United States. This amounts to a deft rebalancing of policy without detracting from Brazil's case for reform of global governance.

The mother of battles to reform the state

But Brazilians will judge her on the economy. Can she sustain faster growth without sacrificing economic stability? Here the task is not easy. This week she won an important battle on the minimum wage: she wants to restrict its rise, because it has expensive knock-on effects on pensions (see article). Her government's plan to seek cuts of 50 billion reais ($30 billion) in the inflated budget may be both insufficient and hard to implement. But at least she is battling on the right side.

The important thing is that Ms Rousseff should see these tussles as the first round in a lengthy campaign to rationalise a baroque state and strip away the handicaps that hinder Brazilian firms from competing. The signs are good. Rather than horse-trade senior jobs in state companies and agencies with her allies in Congress, she wants to appoint the best people. The government hints that it will prise the airports from the dead hand of the air force and bring in private investment. Brazil's booming capital markets are ready to help (see article).

Ms Rousseff clearly intends to be an efficient administrator. What the next few months will show is whether she also has the political skills to extract reform from her large but voracious coalition in Congress. She has the makings of a good president. But the real tests are yet to come.

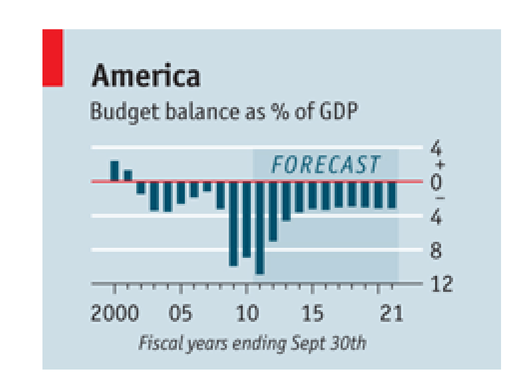
Index | Leaders

America's budget

The latest cop-out

Feb 17th 2011 | from the print edition

Barack Obama has ducked the challenge of grappling with America's medium-term deficit woes



IMAGINE you have developed a serious weight problem. Things have been going badly for you, and as a result you have been piling on the pounds; in the past three years your weight has ballooned by a shocking 10% a year. Your advisers all say that this will give you a heart attack: not immediately, but in the next decade or so. What do you do? Not many doctors would recommend a diet confined to items that make up only an eighth of your consumption (and were in any case often rather good for you), while slyly sticking to a plan to increase gradually the number of cream buns and cheeseburgers you eat every day. Yet that is exactly what Barack Obama has prescribed for the bloated American government.

This week the president presented his draft budget for 2012. In its obfuscations, half-truths and omissions it is perhaps no worse than the budget proposed by the supposedly "small government" Republicans, which likewise concentrates on harsh cuts to small subsections of government spending. But from a true reformer's perspective its only virtue is that investors in American treasuries may be so panicked by its inadequacy that, at last, change may result.

Even though the economy has been out of recession for more than a year, America's deficit is bigger this year than last, and Mr Obama's budget still sets it at well over $1 trillion next year too. Yet the document supposedly cuts the deficit from 11% of GDP this year to 3.1% by 2021. That number is not credible. First, it is based on growth figures that are better than those projected by either the non-partisan Congressional Budget Office or private-sector forecasters. Next, Mr Obama assumes that he will be able to increase current taxes on the rich in 2012, despite the fact that he was unable to do just that last year when his party still controlled the House of Representatives; now he will have to deal with Republicans who are opposed to it. Other revenue-raisers look similarly fanciful.

Finally, the budget plans to find $400 billion of savings in "non-security discretionary" spending over the next ten years. This category accounts for only about 12% of the federal budget, including worthy things like education, infrastructure investment, environmental regulation and many forms of aid to the poor. The cuts that Mr Obama is proposing are a very mixed bag. Some will be blocked by Democrats, others by Republicans. True, the latter have their own long wishlist of cuts, but there is precious little overlap.

Go on, Supersize me

Let's indulge Mr Obama in his fantasy economics: imagine that he does reduce the deficit to 3.1%. Supposedly, that would stabilise government debt: but it would do so at a dangerously high level of around 80% of GDP, and as interest rates rise

the target will become much harder to hit. And that is before you consider the biggest problem of all: as more and more baby-boomers retire (the first started to do so this year), their demands for pensions and government-provided health care will start to push the deficit sharply up again after that.

Indeed, the real problem with both Mr Obama's budget and the Republicans' proposals is not so much the half-truths and fibs within them, as all the things they both left out. America needs to simplify its tax system and (slightly) increase its overall tax take. It needs to rein in its defence spending, which is currently equivalent to that of the next 20 countries combined. And it needs to tackle the gathering surge in entitlement costs. All these recommendations were made by the deficit-reduction commission that Mr Obama himself set up, but his budget conspicuously fails to take up any of them. Other debt-burdened Western countries have embarked on a stringent diet. America continues to gorge.

Why not show a little leadership? In a routine that is becoming depressingly familiar, Mr Obama's camp argues that the time for these things is not yet ripe. Rather than set out any bold proposals of his own, the president would rather leave it to Congress. Once congressional Republicans and Democrats have found some common ground, he will work with them.

In fact, a small group of brave senators from both parties is already toiling away to just that end. But neither the president nor Republican leaders have had the courage to support them. In the absence of statesmanship, the chances are that only a crisis in the bond markets will provide the necessary impetus. Economic management by fiscal heart attack is not a very prudent remedy.

Ireland's troubles

Irish mist

Feb 17th 2011 | from the print edition

The government elected next week should stick to pro-growth policies



THE story of Ireland is like a fairy tale: from rags to riches and back to rags again. Twenty-five years ago Ireland was mired in a deep peat bog of slow growth, high emigration and shocking poverty. Then came the miracle of the "Celtic Tiger", which briefly made Ireland the second-richest country in the European Union. But hubris was followed by nemesis, as a frothy boom turned into a spectacular bust: the banks were rescued by the government, which in turn has now had to accept a humiliating bail-out from the EU and the IMF.

It is little wonder that, in next week's general election, angry Irish voters are poised not just to kick out the government but to give Fianna Fail, haughtily accustomed to being Ireland's ruling party, its biggest drubbing since it was founded 85 years ago. Nor is it surprising that many should now be fretting that the entire Celtic Tiger was an illusion-and that Ireland might be heading back to the gloom of the 1980s.

Such fears are overstated. Ireland's people are experiencing a wrenching recession and a sharp cut in living standards. The Irish state is going to be weighed down by an intolerably large debt burden. But if the new government, which seems almost certain to be led by Fine Gael's Enda Kenny, follows the right policies, the underlying economy is resilient enough, and Ireland's demographic outlook is favourable enough, for it to return to the path of prosperity.

This is to deny neither the epic scale of the Irish property bust nor the visible and not-so-visible scars it has left behind (see article). Clearing up this mess has already cost Ireland as much as one-seventh of its national income. The immediate concern for the new government must be its ballooning sovereign debt. Mr Kenny has promised to renegotiate the penal interest rate that the government is paying for its bail-out. He will meet fierce Franco-German resistance, but Ireland is another prompt for the EU, and Germany in particular, to look at a broader, formal restructuring (including Greece and probably Portugal). Investors know that the current bail-outs are not sustainable: a plan B is needed. In Ireland's case a restructuring should involve a haircut for some bank creditors-and then a lower interest rate on the debt that is left.

What about the longer term? One priority for the new government ought to be to root out the cronyism (and its linked party financing) that gave property developers too much political influence. But Mr Kenny's main responsibility is to sustain the policies that first fostered Ireland's strong growth. These included encouraging more women into work, keeping tax rates low, luring foreign (notably American) direct investment and investing in secondary and higher education. A flexible labour market with sensible trade unions, and an openness to immigration, have also proved critical in enabling Ireland to cut real wages and regain some of the competitiveness it has lost against Germany. It has done this faster than the countries of the southern Mediterranean. In effect, the Irish have in the past two years carried out an "internal devaluation" similar to the one that Latvia achieved in 2009. As a result, exports are already growing and Ireland has moved into a current-account surplus. Far from seeing Ireland as a case-study in what not to do, the troubled Mediterranean members of the euro would do well to learn from it.

Doing Dublin down

Is there a risk of some of these sound policies being jettisoned? For the most part, Mr Kenny will find his hands tied on macroeconomic matters. Ireland cannot afford to quit Europe's single currency, the euro. It will have to comply with the conditions set by the EU and the IMF for their bail-out, however much Mr Kenny may grumble about its terms. And surely nobody in Ireland wants to dump policies that have proved so beneficial to growth.

The worry lies, rather, in pressure from other countries in the euro. There is talk in the euro zone of building a stronger social and political counterpart to monetary union, which might include such notions as harmonised tax bases and labour laws. The symbolic pinch-point for Ireland is its 12.5% corporate-tax rate, which France and Germany self-interestedly want to force up. Their argument is that they are bailing out a bust Irish government which is holding taxes artificially low (never mind that Ireland's low corporate-tax rate yields proportionally bigger revenues than in most other countries).

Fortunately tax matters are decided by unanimity in the EU. Mr Kenny and his new government must veto any attempt to impose a higher corporate-tax rate on Ireland. That would be welcome evidence that they will stick with the country's pro-business and pro-growth policies.

Index | Leaders

Climate change

Piecemeal possibilities

Feb 17th 2011 | from the print edition

Paying attention to alternative ways of cooling the planet is a good idea; ignoring carbon emissions isn't



THE planet-wide industrial exhalation of previously fossilised carbon is not the only way that humans are changing the Earth's climate. There are other greenhouse gases, other atmospheric pollutants, the effects of cutting down forests, and more: together these things may contribute almost as much as carbon emissions to global warming. In the face of an international inability to put the sort of price on carbon use that would drive its emission down, an increasing number of policy wonks, and the politicians they advise, are taking a more serious look at these other factors as possible ways of controlling climate change.

Three things make these alternative approaches attractive by comparison. The first is that the emission of carbon dioxide is a fundamental part of today's industrial infrastructure. The same is not true for, say, HFC-134a, a gas with various industrial uses that delivers more than 1,000 times more warming than carbon dioxide, mass for mass. Something peripheral for which alternatives can be readily found is easier and cheaper to do without than something at the heart of industrial life.

Second, the benefits of reducing carbon-dioxide emissions can seem abstract and far-off. In contrast, reducing emissions of the sooty particles known as black carbon, which are given off by inefficient combustion in cooking fires and brick kilns, and by dodgy diesel engines, offers rapid, huge and tangible public-health benefits (see article). Controlling black carbon by giving poor people cleaner ways to burn various fuels could not only forestall a decade or two of global warming, it would also save hundreds of thousands of lives currently blighted by smoke and disease.

Third, equitable and efficient ways of reducing carbon emissions require new international agreements and new instruments of national policy. Putting these together has often proved difficult to the point of impossible: witness the UN climate talks. Sometimes the efforts have simply failed, as in America's cap-and-trade legislation. Acting on other warming agents will frequently be a more straightforward matter of adapting existing tools. For instance, HFC-134a and a whole family of related chemicals could be dealt with by extending the Montreal protocol created to protect the ozone layer from similar industrial gases. Similarly, black carbon can in many places be managed under existing clean-air regulations, as can some other climate-changing pollutants. True, the Obama administration is trying to tackle carbon dioxide in a similar way, by having the Environmental Protection Agency regulate emissions. But this, too, may fail, and even its proponents do not see it as a very attractive way forward.

Let the good be the friend of the better

As well as having charms that efforts to reduce carbon-dioxide emissions lack, these alternatives could also improve the content and prospects of other climate action. They allow people to meet in smaller venues than the vast UN shindigs. Imagine that success on some of these currently marginal climate issues came fairly quickly and easily. That could help build the trust, ambition and momentum needed to get further on deals to reduce carbon-dioxide emissions, and to find ways to finance the new energy infrastructures those reductions require, both through the UN process and by other means.

But these new types of climate action do not replace the need to reduce carbon emissions. Carbon-dioxide levels are still rising; the shadow of uncertainty and risk they cast into the future is getting deeper and longer. Carbon emitted today will continue to warm the planet for millennia, unless active measures to remove it from the atmosphere are undertaken at some later date. Reducing other short-lived sources of climate change while continuing to emit carbon will delay rises in

temperature, but it will not stop them. Broadening climate action can supplement existing efforts on carbon and provide new suppleness to climate politics-both good things. But this does not change the imperative of decarbonisation.

Index | Letters

Letters

On America and Egypt, Ahmed Ezz, Florida, Bangladesh, piracy, London, NGO jargon

Feb 17th 2011 | from the print edition

Letters are welcome via e-mail to letters@economist.com

Getting it right in Egypt



SIR - Revisionist thinking that credits George Bush with any legitimate insight into Iraq and the wider subject of democracy in the Middle East is wide of the mark. To adduce the erroneous neoconservative theory that "the root cause of terrorism was the absence of Arab democracy" (Lexington, February 5th) only serves to prove that Mr Bush was as clueless as he was ineffective in dealing with issues in the Arab world.

Terrorism has long thrived in free countries. The Baader-Meinhof gang, the Irish Republican Army, the Red Brigades; these organisations and others all originated in democracies. Mr Bush simply retrofit his policies to appease his own misguided perceptions.
His judgment turned out to be fatally flawed.

Dennis Appleton
Madison, Wisconsin

SIR - The claim that "the statelessness of the Palestinians remains the great unifying cause of the Arab world" (Lexington, February 12th) could, in fact, be the consensus view among the dictators who rule the lives of most Arabs. Yet Arabs living in those dictatorships underperform their stateless brethren in the Palestinian Authority, to say nothing of Arabs

who have chosen to live in Israel, on almost any measure of human development: life expectancy, literacy, education and political freedom. And this despite sitting upon history's biggest free lunch in the form of oil wealth. Contrast that with the poverty Palestinians suffered under the dominion of Jordan, or currently under Hamas.

Jed Arkin
Tel Aviv

* SIR - The ambivalence displayed by the United States and other Western powers in the wake of the Egyptian uprising may be understandable, but not well grounded since it is based on a blinding fear of the possible ascendancy of the Muslim Brotherhood. But this faulty calculation neglects the powerful forces of a trully democratic system that thrives on transparency and accountability and puts every aspiring political group to the scrutiny of a restless and demanding public.

The focus should now be on guaranteeing the establishment and success of democratic institutions rather than on thwarting the aspirations of pariah groups like the Brotherhood. An open democratic process will draw the Brotherhood from the shadows of a romaticised existence into the messy scrutiny of governance.

If they gain power they will be put to the test of running a successful government capable of eliminating corruption and establishing a free, peaceful and thriving society. If they fail the test, they will lose their shine and will be driven from power at a future election.

Hassen Saleh
Chicago

* SIR - Islamists (mostly extremists) have emerged after every single fair democratic election in our region. That is exactly why you do not see much of the Muslim Brotherhood in Egypt now; it is the youngsters who were calling for democracy. Hosni Mubarak was the common enemy.

Rahim ElKishky
Cairo

SIR - Any analysis of America's response to the aspirations of the Egyptian people might benefit from a comparison with the 1953 coup d'etat in Iran, when the Iranian democracy movement was quashed with the assistance of the CIA. America's actions then were driven by the cold war and were pragmatic, economic, and with the benefit of hindsight, wrong. By stifling the democratic aspirations of Iranians America sowed the seeds of the Islamic dictatorship that confronts and confounds her today.

Patrick Thiele
Roundup, Montana

* SIR - Your shoe-thrower's index is an inspired idea, but it lists Tunisia as the 11th most unstable Middle Eastern country in a list of 17. I suggest you revise your methodology.

David Hofer
Cambridge, Massachusetts

Ahmed Ezz

SIR - Your Schumpeter column of February 12th stated as fact an allegation that has been made against me. I want to express in the strongest possible terms that, as an elected member of the Egyptian Parliament for ten years and a member of the National Democratic Party, I have at no time been involved in, or overseen, any activities that could be construed as vote rigging.

At a time when many baseless allegations have been given popular credence, this allegation is so serious that I have felt obliged to respond and set the record straight.

Ahmed Ezz
Chairman
ezzsteel
Cairo

Recession and homelessness



SIR - You wrote about poverty in America's sunbelt, but profoundly understated the help that we have given to the homeless and unemployed in the Sarasota-Bradenton area of Florida ("Et in Arcadia ego", January 29th). Sarasota and Manatee counties, including the cities of Sarasota and Bradenton, continuously assess the need for economic and social support programmes. We have invested considerable resources to stimulate our region's economy and create jobs for those who have lost them. We have assisted hundreds of homeowners who faced foreclosure. And we have helped low-income people get housing.

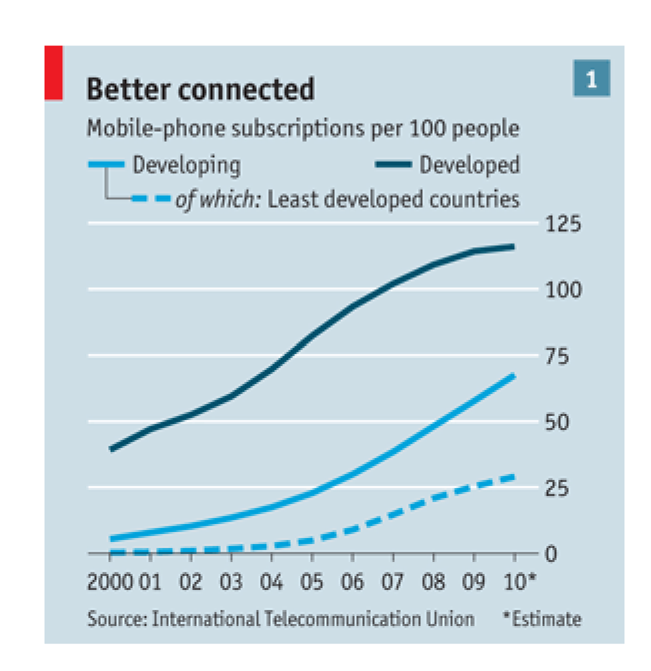
Local governments are maintaining programmes that aid people who are homeless or unemployed, despite severe budget constrictions. One such initiative is a ten-year plan to end homelessness in Sarasota county. A centre for the homeless opened in Bradenton last year. We have done this amid a time of great national stress.

Nora Patterson
Chair
Sarasota County Commission
Sarasota, Florida

Kelly Kirschner
Mayor of Sarasota

Carol Whitmore
Chairman
Manatee County Commission
Bradenton, Florida

It's good to talk



* SIR - I read your report on the benefits that mobile technology is bringing to developing countries ("Not just talk", January 29th). In some countries, however, bad regulation is stifling innovation and progress. In Bangladesh the government imposes a tax of $12 on each SIM card. That may seem an insignificant amount in the West, but in Bangladesh the average subscriber spends only $2.94 a month on mobile calls. Furthermore, the Bangladeshi government is considering the renewal of 2G licences and is proposing fees that will cost the mobile industry more than $1.5 billion, which will only hamper innovation and further investment in the sector.

It is worth asking why is it that only 43% of Bangladeshis have a mobile phone when mobile coverage reaches 98% of the population. Clearly, Bangladesh should be doing much more to ensure that all Bangladeshis reap the benefits of the innovation in telecoms mentioned in your article.

Tom Philips
Chief regulatory officer
GSMA
London

Strike at the pirates

SIR - I disagree with any policy that mollifies the problem of piracy ("At sea", February 5th). Paying a ransom to return hostages will only embolden other pirates. The only permanent solution is to smash the pirates' onshore infrastructure and to pursue and destroy their ships at sea. We should learn from history.



The American navy, along with the marines, Greeks and Berber mercenaries, attacked pirates based in Tripoli in 1805, a tuning point in the first Barbary war. The golden age of piracy in the Caribbean came to an end through the use of overwhelming force by the English navy, which hunted down and hanged pirates it captured, on land and at sea.

It is difficult to understand the reluctance to enforce article 100 in the preamble to the UN Convention on the Law of the Sea: "All states shall co-operate to the fullest possible extent in the repression of piracy on the high seas or in any other place outside the jurisdiction of any state."

Robert Craig
Colonel, United States Army (Ret.)
Princeton, New Jersey

SIR - It is truly unnerving that the high technology of modern warfare cannot find effective means to stop the activities of pirates operating from a few mother ships and small skiffs. This is guerrilla warfare at sea and traditional naval strategies are clearly not sufficient to defeat or even deter piracy. Parallel strategies should be looked at, including perhaps the deployment of smaller and faster patrol boats to shadow the mother ships.

Torben Skaanild
Secretary-general
Baltic and International Maritime Council
Bagsvaerd, Denmark

All roads lead to London



* SIR - It was interesting to read about "Londonism" and the challenges presented to Britain by having such a dominant city ("The capital's creed", February 5th). You might also have mentioned how Britain's so-called national airline, British Airways, has distanced itself from the British regions in favour of operations at London's airports, thus supporting the London-as-a-city-state concept.

This is unique among large European countries. Lufthansa has two main hubs, at Frankfurt and Munich, and secondary ones at Dusseldorf and Hamburg. Berlin's new airport will open next year. Air France is not merely entrenched at Paris; it has a hub at Lyon and subsidiaries flying from airports all over France. In Spain, Iberia is building a second hub, after Madrid, at Barcelona. I could go on.

In Britain if you really must fly on BA, you make your way, usually with difficulty, to London. Or you try to find another carrier. The airline should rebrand itself as London Airways.

David Bentley
Oldham

* SIR - The view of Londoners may have remained "outward-looking" during the financial crisis, but for many people in Britain the problem with London is exactly the opposite; Londoners are inward-looking and assume the entire country revolves around the capital. If anything, it is the shenanigans in the city over the past few years that have been responsible for the "souring" attitude of the rest of Britain.

Theadora Behbahani
Cambridge, Cambridgeshire

A jab at the jabberers



SIR - Your article on the spread of NGO jargon in South Sudan ("Anyone here speak NGOish?", January 29th) resonated with my experience as a new faculty member at a small college. Here, the buzz words are "student engagement", "academic assessment", "goals-oriented exercises" and "learning outcomes", especially as they pertain to the "core mission" of the institution. We hold meetings on "skills development", instead of just learning, and write reports on how to foster "critical thinking", instead of just thinking well.

Meanwhile, the high-minded discourse and furrowed brows allow us to put off the more contentious and difficult questions of how these things should actually be done. That the language of Pedagogueish looks good in grant applications and tenure files is beyond doubt. Whether it leads to better teaching or more knowledgeable students is another matter entirely.

Ethan Hollander
Crawfordsville, Indiana

SIR - How distressing to learn that Africa's newest country "already knows the gobbledygook of aid". Can we in the West not swiftly deploy private-sector consultants to help South Sudan achieve jargon parity? This would allow its citizens to identify their core competencies and, through continuous improvement, align them with key success factors to achieve synergy.

Peter Alexander
Toronto

* SIR - You do not need to go to Juba to encounter NGOish. Our local council's strategic plan is so full of it that it seems they have forgotten to include any actual ideas.

David Scott
Loughborough, Leicestershire

* Letter appears online only

Ireland's crash

After the race

Feb 17th 2011 | *DUBLIN AND TRALEE* | from the print edition

Once among the richest people in Europe, the Irish have been laid low by a banking collapse and the euro zone's debt crisis. What now?



"THERE'S a craze for land everywhere!" The line draws wry laughs from audiences in Dublin's Olympia Theatre at a revival of "The Field", John B. Keane's play about a land dispute in south-west Ireland. Their country has been transformed since the play was first staged 45 years ago. But Mr Keane's lines also belong to a more recent time in Irish history.

Consider St Michael's Green, an abandoned half-built housing estate near the village of Lixnaw, in north Kerry. "Look at what's coming soon to Lixnaw", proclaims a sign at the entrance. Visitors who take up the offer are met with an apocalyptic sight. Four finished houses, complete with driveways, stand in line. Windows are broken; shards of glass are strewn on the ground. Peer (carefully) through the window-frames and you can see doors hanging from hinges and semi-

carpeted floors. Opposite the houses, surrounded by metal fencing, some of it collapsed, are the exposed foundations of houses never built. Rubble and rubbish lie everywhere. With wind howling and rain lashing, it is easy to imagine that you are gazing on the ruins of a failed civilisation. And in a way you are.

Such "ghost estates" are only the most visible scars of Ireland's extraordinary crash, which in four years has turned the country from Europe's star performer into a sickly invalid. After a long history of poverty and unemployment, the Irish thought they had finally transformed their country into a successful modern state. Now they find themselves saddled with staggering debts and an international bail-out. Some wonder whether the country's achievements in recent years counted for anything at all. How did this happen? And what comes next?

In the 1990s Ireland became the "Celtic Tiger". Sensible policies and a benign global economy helped it catch up with European neighbours that for decades had left it languishing. Between 1993 and 2000 average annual GDP growth approached 10%. But then someone put speed in the tiger's water. Over the last decade the boom turned bubbly, as low interest rates and reckless lending, abetted by dozy regulation, pushed up land values and caused Ireland to turn into a nation of property developers. In County Leitrim, in the Irish Midlands, housing construction outstripped demand (based on population growth) by 401% between 2006 and 2009, according to one estimate.

Few minded. The Irish became, by one measure, the second-richest people in the European Union. "The boom is getting boomier," said Bertie Ahern, Ireland's taoiseach (prime minister), in 2006. The government began exporting the Celtic Tiger model, telling other small countries that they, too, could enjoy double-digit growth rates if they followed Ireland's lead. People splashed out on foreign holidays, new cars and expensive meals. "We behaved like a poor person who had won the lottery," says Nikki Evans, a businesswoman.

Then it all began to go wrong. Property prices started sliding in 2006-07, leaving the banks hopelessly exposed. "What happened in Ireland was very boring," says Morgan Kelly, an economist at University College, Dublin, and one of the few observers to have predicted the crash. "There were no complex derivatives or shadow banking systems. This was a good old 19th-century, or even 17th-century, banking collapse." On September 15th 2008 Lehman Brothers tumbled, sending a giant tremor round the world. Two weeks later, with the share prices of Irish banks in free fall, the government took the fateful decision to guarantee liabilities worth euro400 billion ($572 billion) at six financial institutions.

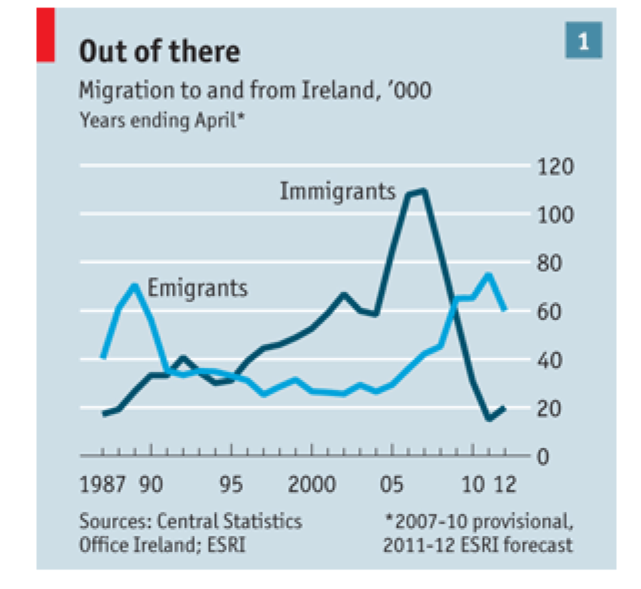
The costs of the rescue mounted as the banks' losses grew, springing a giant hole in the public finances. The banking crisis had become a sovereign-debt crisis. International investors began to target Ireland as a weak link in the euro zone, raising its borrowing costs to unsustainable levels. In November 2010 it became the second country in the euro zone, after Greece, to accept a bail-out from the EU and the IMF.

"I can't tell you how depressing it is here now," says Anne Enright, a novelist. An austerity budget pushed through to meet the terms of the euro85 billion bail-out is starting to hit pockets. Unemployment has shot up to 13.4%, wages have fallen and, after a peak-to-trough contraction of 14% of GDP, the economy is still flatlining. "It's very demoralising that this thing has happened when we thought we had arrived at a modern industrialised society," says David Begg, general secretary of the Irish Congress of Trade Unions.

The myths of success

Not everyone welcomed the changes that prosperity brought. Kevin Barry, a writer who had been living abroad, returned home to find that "people only spoke about two things: property prices and commuting times. It was extremely boring." Ms Evans, who runs PerfectCard, a pre-paid debit-card business, saw some of her younger staff acquire a sense of entitlement which made them hard to motivate. (It's easier now, she says.)

As Ireland grew richer, one form of exceptionalism-the fatalistic belief that Ireland was destined always to be western Europe's poor outpost-gave way to another: the myth of the Celtic Tiger. "We're very narcissistic," says Ms Enright. "We believed our boom was better than anyone else's." The twin articles of independent Ireland's faith, Catholicism and nationalism, were eclipsed by material ambition: the desire to get on, to improve one's station in life. "People lost interest in the other world while they were so successful in this one," says Mark Patrick Hederman, abbot of Glenstal Abbey, near Limerick.



The new Ireland looked attractive to outsiders. When the country opened itself to new EU members after the 2004 eastward expansion, Poles and others poured in looking for work (see chart 1). Rather than resenting the newcomers, many Irish were proud that their country had become a place people wanted to enter rather than leave. "The country was welcoming, open, easy-going," says Monika Sapielak, a Pole who began to visit in 2001 and who now runs a contemporary-arts centre in Dublin. "There was a sense that anything was possible." Not any more.

Many people see the economic crisis as a chance to jettison the baggage of excess that marked the later Tiger years. The first casualty will be Fianna Fail, the party that presided over the "boomier" years and, in coalition with the Greens, the subsequent crash. In a general election on February 25th, voters will boot the party out; the polls suggest it could fall to third place, behind Fine Gael and the Labour Party.

This alone is a big story. Fianna Fail is the "natural" party of government in Ireland: it has been in power for three out of every four years since winning a landslide victory in 1932, and it has been the biggest party in parliament ever since. Yet it is hard to detect a whiff of revolution. The next government will almost certainly be led by Fine Gael (probably in coalition with Labour), a party with a centre-right platform not obviously distinct from Fianna Fail's. (In Ireland's peculiar politics, the difference between the two main parties dates from the 1922 civil war, fought over the terms of independence from the British.) Few believe the party would have been a more responsible steward of the Celtic Tiger. Enda Kenny, its leader and probably the next taoiseach, is no more setting Irish hearts alight in this campaign than in his 36 years in parliament. A telling sign of the mood is that although 95% of voters say they are unhappy with the government, 16% of them plan to vote for it.



Enda Kenny will renegotiate the bail-out-and fix your drains

At this tumultuous time for Europe-deadly riots in bailed-out Greece, hundreds of thousands marching over pension reform in France, a general strike in Spain-Ireland's collapse may be the worst trauma of all. But apart from a union-led demonstration in Dublin in November, there have been few outward signs of rage. Why do the Irish seem so quiescent?

As a small country, Ireland is a hard place to hide in. Reports abound of disgraced bankers being hounded out of pubs by burned investors, or Fianna Fail candidates having dogs set on them. "There aren't that many strangers in Ireland," says Ruairi Quinn, a Labour frontbencher. This, some say, acts as a safety valve, allowing citizens to vent their anger directly rather than take to the streets.

But it also lends Irish politics an oddly intimate flavour. National candidates tout achievements that in other countries would be considered the domain of local councillors. This goes along with a proportional voting system that forces candidates of the same party to compete for votes, turning elections into intensely personal contests. "If you're not seen to be helping your constituents, you will not be re-elected," says Martin Ferris, Sinn Fein TD (member of parliament) for Kerry North.

During a windy canvassing session in a middle-class area of Tralee, County Kerry's largest town, many voters say they will back Mr Ferris because they remember how, seven years ago, he worked to improve access to local footpaths and tackle anti-social behaviour. Not one mentions his party's policies. You would expect this lot to be Fine Gael supporters, says a party worker, who appears to know them all personally. But Mr Ferris has won them round. She herself began canvassing for him because of his community work.

A TD working the campaign trail looks like democracy in action. But there are problems. Ambitious types do not want to spend their careers promising to fill in potholes and deliver passports, so they avoid politics. Moreover, the endless focus on local issues distracts from the business of running the country. "Politicians say, 'Elect me and I'll get you a swimming pool.' You'll get your pool, but there won't be any money to run it," says Damian Loscher of Ipsos MRBI, a market-research agency.

The radical transformation of Ireland into a globalised economy left some old attitudes untouched. Voters continued to tolerate levels of misbehaviour and, in some cases, outright corruption in their politicians that in other countries would have ended careers. Cronyism flourished, as businessmen, politicians and bankers sealed themselves off in a cosy world of golf matches, fine dining and the Fianna Fail tent at the Galway races. "It felt like an old boys' club," says Ms Evans-who had to use personal contacts, too, to get the government's attention.

Fond, but not in love

When the EU and IMF delegations arrived in Dublin for bail-out talks last November, the *Irish Times* ran a lachrymose editorial asking if this was what the national heroes of the 1916 Easter Rising had died for. Outsiders saw this as a sign of resentment from a proud nation that was once again having its affairs run by foreigners. Yet the editorial went on: "The true ignominy...is that we ourselves have squandered [our sovereignty]." Having seen their leaders make such a mess of things, most Irish welcome the arrival of technocrats.

Still, one long-term effect of this crisis may be a cooling of Ireland's love affair with the EU. When the country joined what was then the European Economic Community in 1973, children danced in the streets. Agricultural subsidies and infrastructure funding flooded in from Brussels. Equal membership in a club of nations was a seal of sovereignty. Ireland remains more positive about the EU than most other members. But the Irish have begun to suspect that the "solidarity" they hear so much about from European leaders does not apply to their troubled economy.

The terms of the European element of the bail-out arouse particular ire. There is something approaching a consensus in Ireland that the country rescued Europe (specifically, German and French investors that had lent heavily to Irish banks) last November, rather than the other way around. There have been heated exchanges between Irish and EU politicians over how to apportion the blame for Ireland's crash. Some compare Ireland's bank guarantee unfavourably with Iceland's decision, after a similar meltdown in October 2008, to let the banks go to the wall, creditors be damned. Eyeing an opportunity, the parties that are likely to form the next Irish government have made extravagant campaign promises about renegotiating the bail-out package. They may find it difficult to keep them once in office.

Ireland is not about to adopt the Euroscepticism of its larger neighbour, Britain. But it is bound to become more pragmatic. The new government will, for example, fight hard for permission to impose bank losses on creditors not covered by the 2008 guarantee (something the European Central Bank rejected during the bail-out negotiations). "The attitude has shifted from 'We want to be part of Europe' to 'We need to be part of Europe'," says Mr Loscher.

One fear is that a growing number of young people will not be part of Europe at all. Lack of prospects will drive them to America, Canada or Australia. For at least 150 years, emigration has been the instinctive Irish response to hardship. Alan Barrett of the Economic and Social Research Institute (ESRI), a Dublin-based research body, says emigration is to the Irish what inflation is to the Germans: a trauma formed by economic wounds inflicted decades ago that still runs deep in

the collective memory. The generation that came of age in the Celtic Tiger years was the first that did not feel it had to move abroad to thrive. But for now, those days are over.

A recent report by the ESRI, based on employment forecasts, estimates that a net 100,000 people will leave Ireland between April 2010 and April 2012. That is a lot: at its peak, the net annual outflow in the 1980s was 44,000. Evidence of the exodus is already emerging. Work-placement and visa-assistance companies are advertising widely. Election candidates report that emigration is a big issue on the doorstep.

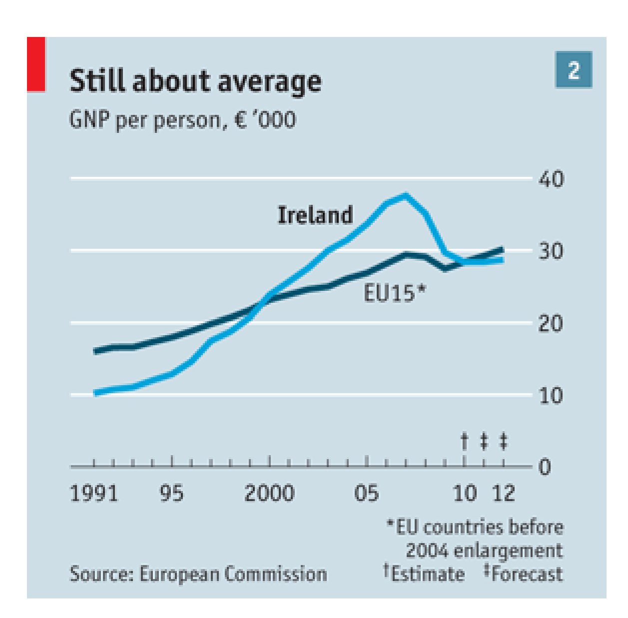
Still, many argue that a population willing to move to where the jobs are is exactly what a country in Ireland's predicament needs. Historically, labour mobility has helped to keep a lid on unemployment. And there have been other benefits: the diaspora, particularly in the United States, has proved a useful asset for Ireland, politically as well as economically. Moreover, a move abroad today is hardly the one-way ticket it was for many in the 19th century. When Ireland started to boom in the 1990s many emigres returned home, bringing with them much-needed skills and capital.

But such arguments will ring largely hollow in a country where emigration is so strongly linked to feelings of national shame. "You can talk about the collapse in GNP," says Mr Barrett, "but the emotional touchstone of emigration is a major issue. That's why there is a great sense of regret."

Tiger no more

In five years' time Ireland will mark the 100th anniversary of the Easter Rising. The country will ask itself how far it has satisfied the hopes of those who fought for its independence. Some fear that the crash has shown the Celtic Tiger to have been a phantom, an illusionist's trick that distracted Ireland from its underlying poverty with glitzy cars and big houses.

It is true that Ireland will not soon pull itself from the economic bog. Recovery will be slow at best, particularly if an inflation-wary ECB starts to jack up interest rates. Unemployment is likely to stay in double figures for some time. Some fear that the cost of servicing the debts to the EU and IMF, and of feeding the insatiable maw of the banks, will eventually force Ireland into a debt restructuring. This would be a terrible blow to a country desperate to believe that the worst is over.



Yet Ireland is not about to return to the dark days of the 1980s. Numerically, the recession has sent living standards back only to the levels of around 2002 (see chart 2). The flexible economy will remain attractive to multinationals seeking a toehold in Europe, especially if it keeps its low corporate-tax rate. Domestic demand is still depressed-a big concern. But unlike other troubled euro-zone countries, Ireland is regaining competitiveness by reducing unit labour costs. Exports are booming, and there should be a current-account surplus this year for the first time in over a decade. The demographic outlook is favourable. "There are no brakes to growth if we can get this thing going," says Danny McCoy, head of the Irish Business and Employers Confederation.

At least as important, despite the fog of gloom sitting over the country, Ireland has much to be proud of. Not all the gains of the Celtic Tiger years were squandered. An optimistic, entrepreneurial spirit emerged that will not be crushed by a few years of recession. Higher education has expanded dramatically-30% of Irish students are the first in their family to attend university-as has the labour force. A generation has grown up knowing nothing but prosperity. This accumulation of expectation and experience makes Ireland a very different country from the weary, fearful place of the mid-1980s.

Perhaps the most hopeful future for Ireland lies in becoming, for the first time, an ordinary small European country, with a properly functioning democratic system and a stable, diversified economy. But first it must begin to see itself with sober eyes. Kevin Gardiner of Barclays Wealth, who coined the phrase "Celtic Tiger" in 1994, says that Celts have a nasty habit of extrapolating both good and bad times for ever (as a Welshman, he dares to make such generalisations). Just as the Irish suffered a bad bout of irrational exuberance in the boom years, they have now been overcome by excessive pessimism. Or, as Ms Enright puts it, "Ireland is a series of stories it tells itself. None of them are true."

The federal budget

Austerity lite

Feb 17th 2011 | *WASHINGTON, DC* | from the print edition

A feeble offering from the president; but there are a few signs of hope



FOR years America's politicians have delivered only pious words about the deficit. With the financial crisis and the recession now in the rear-view mirror, this year was supposed to be the time when Barack Obama and Congress would shift towards austerity. The competing budget proposals of congressional Republicans and the president do contain hints that such a moment has arrived-but only by the sadly low standards of the current fiscal debate.

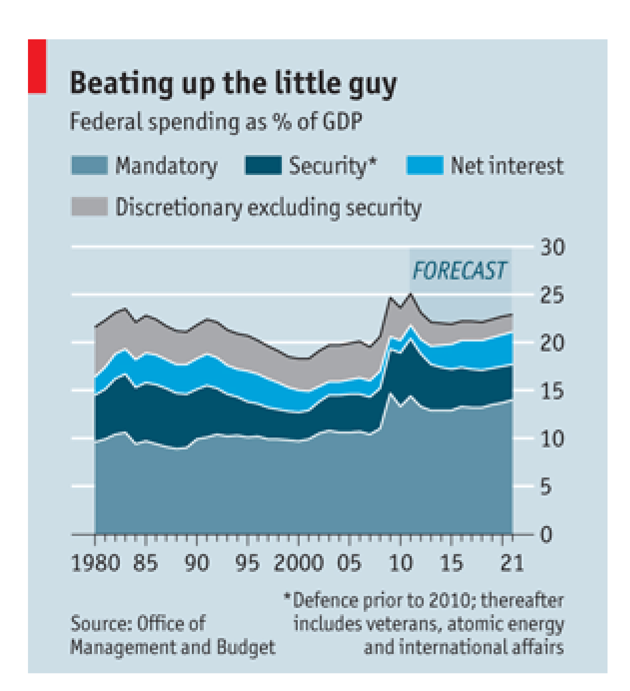
Mr Obama's budget proposal, unveiled on February 14th, calls for $1.1 trillion in spending cuts and tax increases over the next decade. "Making these spending cuts will require tough choices and sacrifices," he declared. Of the savings, $400 billion would come from freezing for five years the level of discretionary spending, excluding security. (Discretionary spending must be authorised annually by Congress.) To reach that target, Mr Obama calls for killing or shrinking some 200 programmes. Many are dear to his liberal base, such as heating subsidies for the poor and college grants for summer study, and their presence on the chopping block is meant to burnish Mr Obama's fiscal credibility. Civil-service pay would be frozen for two years. As for security, the Pentagon's budget would be cut by $78 billion over five years and spending on the wars in Iraq and Afghanistan reduced. Total discretionary spending would thus shrink to just 5.6% of GDP, which would be the lowest in at least 40 years.

Mr Obama's budget proposal projects that the deficit will fall from a post-war record 11% of GDP in the current fiscal year to 3.1% by 2021. That would stabilise the debt, albeit at a still-lofty 77% of GDP. A stable debt ratio is the litmus test of a sustainable budget.



Sadly, a closer look suggests that the budget would have almost no chance of achieving this. First, according to Maya MacGuineas of the Committee for a Responsible Federal Budget, the projected fall in the deficit relies on rosy assumptions and "magic asterisks". By using more optimistic assumptions about underlying economic, revenue and spending growth than the non-partisan Congressional Budget Office, it knocks an average of $150 billion (or 0.8% of GDP) a year off the deficit. To maintain Medicare payments to doctors and fund a dramatic increase in transport infrastructure, including $53 billion for high speed rail, the budget counts on Congress coming up with as much as $650 billion; absurdly, it doesn't say how.

Mr Obama's plans to raise taxes are also problematic. Last December he capitulated to Republicans and agreed to extend all Mr Bush's tax cuts to 2012, including those for the rich. His budget proposes that the rich pay higher taxes thereafter. It also curbs tax breaks, such as those for mortgage interest, for the wealthy. He plans to extract $46 billion from oil and gas companies and $129 billion from multinationals. But the Republicans who control the House of Representatives are dead set against any tax increases.



Finally, Mr Obama's budget largely ignores the real long-term deficit threat, which comes from the big three entitlements: Social Security (pensions), Medicare and Medicaid (health care for the elderly and poor, respectively). These dominate mandatory spending, which does not require annual authorisation. As the population ages and health-care costs gallop ahead, mandatory spending will grow relentlessly, to 14% of GDP by 2021 (see chart) and much more thereafter. Mr Obama did little in his budget other than to acknowledge the need to address entitlements. Nor does he mention higher taxes for the middle class, which will have to be part of the solution.

Mr Obama's calculated neglect is discouraging but hardly surprising. His team reckons that any serious proposal to cut entitlements or raise taxes would be ripped apart by Republicans and interest groups. Jack Lew, the new White House budget director, says controversial initiatives have to be bipartisan. When presidents go it alone, they "set the process back, not forward".

Unfortunately, the Republicans are no braver on entitlements. House Republicans, bowing to pressure from their "tea-party" wing, recently tripled the spending cuts they want for the remaining seven months of the fiscal year to $100 billion. But they come entirely from the discretionary budget. Asked why entitlements remain off the table John Boehner, the Republican leader, told NBC's "Meet The Press" that Americans don't yet know that entitlements are the problem.

The lack of attention to the long-term deficit is unfortunate, but there are a few grounds for hope. In the past even discretionary spending cuts ran aground when congressmen rallied to defend their favourite programmes. Cuts now look certain; the only question is their magnitude. Paul Ryan, the Republican budget committee chairman, called it "refreshing [that] we are debating how much to cut spending, not how much to increase spending."

Still, the scale of cuts Republicans now want would undo a sizeable portion of the stimulus of last year's tax deal, setting back the recovery. For that reason, as well as others, Democrats are unlikely to go along. Instead, the two sides will have to try and hammer out a compromise. Time is running out: the government's authority to spend money expires on March 4th, and to issue additional debt as early as May. So don't expect miracles.

But even on entitlements and tax reform, something may be happening. In the Senate, Mark Warner, a Virginia Democrat, and Saxby Chambliss, a Georgia Republican, have assembled some 30 senators from both parties, including four who served on Mr Obama's deficit commission. They are mulling over legislation to enact elements of the commission's plan to stabilise the debt over the long haul by curbing entitlements and closing tax loopholes. Opposition from House Republicans and lack of enthusiasm from Mr Obama scotched the commission's plan in December. If they're serious about restoring fiscal sanity, they must not kill it off.

Index | United States

State budgets

On their own

Feb 17th 2011 | *CHICAGO* | from the print edition

The government considers new ways to help ailing states



"THE era of the bail-out is over," Patrick McHenry, a Republican congressman, declared on February 9th. His subject was not carmakers or banks, but states. For the past two years the stimulus bill has propped up state governments. This year the states are still in trouble: as the stimulus runs out, they face a collective $125 billion in deficits. But the federal

government will not send another infusion of cash and most states require their budgets to be balanced. So politicians in Washington are mulling over new ways to help. Two recent plans present different forms of aid. On February 14th Barack Obama's budget offered states some short-term relief. That afternoon, congressmen considered letting states go bankrupt.

Mr Obama's plan addresses an imminent problem. As joblessness rose, states borrowed money from the federal government to pay for unemployment benefits. As of this week 30 states between them owed $42.6 billion, according to the Department of Labour. Now they must start to pay off their debts. Under current law, federal taxes on employers will rise automatically in three states-Indiana, Michigan and South Carolina-and more will join them next year. Mr Obama's plan would let states defer interest and debt payments until 2014, so taxes would not necessarily have to rise when the economy was still weak. In 2014 the federal tax rate would fall, but the tax base would widen.

Mr Obama's proposal would give immediate relief. A state bankruptcy law, on the other hand, would prepare for a possible future calamity: the inability of some states to pay for workers' pensions and health care. A band of prominent conservatives cheerfully argue that states should be allowed to go bankrupt, so they can restructure such liabilities. Newt Gingrich, a putative Republican candidate next year, has thrown his weight behind the idea. Jeb Bush, Florida's respected former governor, has added his support.

It is unclear whether either plan is welcome-on the Hill or in state capitols. Mr Obama's offer should appeal to cash-strapped governors, but has rattled some Republicans. Conservative governors must either accept the president's help or see taxes rise, hardly an attractive choice. In Indiana federal unemployment taxes are due to climb this year, yet Mitch Daniels, the governor and a possible presidential contender, rejects Mr Obama's plan. Eric Cantor, the House majority leader, rejects the possibility of either bail-outs or bankruptcies "States can deal with this and have the ability to do so on their own," he said recently.

Bankruptcy is even more controversial. The National Governors Association (NGA) opposes the idea fervently. Bankruptcy raises thorny issues about state sovereignty. Bankruptcy is also unnecessary, argues Raymond Scheppach, the NGA's director, as states are not in danger of default. Last month analysts at Standard & Poor's, a rating agency, explained that states would be unlikely to declare bankruptcy even if they could. The main impact of such a law, therefore, might merely be to make borrowing more costly.

Index | United States

Squeezing the unions

The Wisconsin way

Feb 17th 2011 | *WASHINGTON, DC* | from the print edition

Cracking down on collective bargaining

"IF YOU'RE going to negotiate, you've got to have something to offer. We don't." Thus Scott Walker, Wisconsin's new governor, explains his refusal to speak to unions about an emergency budget bill that would trim the state's contribution to its employees' medical insurance and pensions. In fact, Mr Walker, a Republican, wants to rule out negotiations with unions about benefits in perpetuity. Hence another measure in his bill, which would bar the state government, along with counties and municipalities, from striking deals with unions over anything other than pay rises. Even those would not be allowed, by law, to exceed the inflation rate unless local voters said otherwise in a referendum.

Lots of states, faced with swelling pension and health-care costs and yawning deficits, are seeking to curb public-sector pay and benefits. A few are going further by trying to trim the power of the unions that defend civil servants' wages. This week Ohio's legislature took up a measure similar to the one being pushed by Mr Walker in Wisconsin, denying state and local employees collective-bargaining rights. A bill before the Florida Senate would prevent the state from deducting union dues from salaries, and make it harder for unions to spend money electioneering. As it is, many states already limit collective bargaining by public employees in one way or another; and North Carolina, Texas and Virginia ban it altogether.

Mr Walker says his package will save Wisconsin $30m by July, and another $300m over the following two years. The restrictions on collective bargaining, he claims, are needed to force through the other changes without protracted negotiations. Union contracts, he notes, can take a year or more to thrash out. He is particularly keen to relieve the state's 1,000-odd local jurisdictions of the need to haggle with the unions over benefits. Given the reductions in subsidies to localities he is proposing in his next budget, he wants to be sure that local authorities have foolproof cost-cutting mechanisms at their disposal.

But unions retort that the state already has the authority to impose its will on public workers if need be. Moreover, there are several measures in Mr Walker's proposal that do not have much to do with balancing the books. For example, it would oblige unionised government workplaces to hold an annual ballot to reaffirm the union's role-a step that is likely to cost money, rather than save it. Steve Kreisberg of the American Federation of State, County and Municipal Employees, a big public-sector union, says "this is about trying to abolish the unions, pure and simple."

Mr Walker himself has muddied the waters by exempting police and firemen from the cutbacks and restrictions. Mr Kreisberg sees this as a reward for the few unions that supported his election campaign (most, including some representing police and firemen, sided with his opponent). Mr Walker argues that the state often treats public-safety workers differently, and is wise to do so, since it cannot do without them in a pinch. But that seems tantamount to accepting that certain unions, at any rate, will continue to hold the state's finances hostage-not the sort of thing Mr Walker normally puts up with.

The struggling retail sector

Stripped

Feb 17th 2011 | *FREEPORT, LONG ISLAND* | from the print edition

---

Once the heart of the suburbs, many strip malls are struggling



FOR half a century, strip malls were the commercial heart of suburbia. Americans drove to these open-air shopping centres, strung out along a main road, to pick up their dry-cleaning or get their hair styled. Now vacancy rates are at 10.9%, a level not seen since 1991, according to Reis, a property analyst.

Although the bankruptcies of some retail chains, such as Circuit City and, as of this week, the book chain Borders, have left big holes, the decline of strip malls has also been caused by rampant overbuilding. In 1990 there were 18 square feet

(1.7 square metres) of retail space per person. By 2010 the figure had more than doubled to 40 square feet, according to Kennedy Lawson Smith, a land-use expert. Shops have changed places in a version of musical chairs, leaving empty storefronts in their wake. Ryan Severino, an economist with Reis, calls what happened "over-development meets under-demolishment".

Strip-mall owners are now on the lookout for new kinds of renters: political candidates, for example, who can use them for short-term office space. Some strip malls have become ethnic commercial enclaves with halal butchers replacing mini-marts. Abigail Rosenbaum of CBRE-Econometric Advisors also notes that supply growth is flattening. Not much building went on in 2010, and little is likely in 2011 and 2012. But suburban staples like Wal-Mart, Costco and Target are moving into cities, leaving hundreds of big stores empty, according to Edward McMahon of the Urban Land Institute.

What of the future? Mr McMahon recently observed two Barnes & Noble outlets close to each other in Maryland. The one in a strip mall did less well than the one with no dedicated parking, but near a cycle path and the train. It is surrounded by other shops and restaurants in a sort of town centre, or, as Brandon Palanker of Renaissance Downtowns, a developer, describes it, "a boutique city". That may be the way ahead.

Index | United States

Drugs policy

Sniffle and boom

Feb 17th 2011 | *CHATTANOOGA* | from the print edition

States take the fight against meth to the pharmacy counter

PSEUDOEPHEDRINE, the active ingredient in many over-the-counter cold and allergy medicines, brings relief to millions of snifflers. But when crushed and combined with a witches' brew of other chemicals, including lithium, liquid fuel and ammonia, it is the precursor to the illegal drug methamphetamine, or meth. Unlike heroin, cocaine or marijuana, meth can be made cheaply and quickly by combining legal household materials. And while much of the meth consumed in America comes from large clandestine labs in California or Mexico, cooks can easily "shake and bake" their way to a few hits by swirling ingredients together in a plastic bottle.

Unfortunately, meth labs are volatile, and cleaning up the toxic by-products when a lab explodes or is shut down by police is expensive. Precise numbers are tough to come by, but Tommy Farmer, who heads Tennessee's Methamphetamine Task Force (TMTF), puts the cost between $5,000 and $25,000 just to clean up the property. Then there are ancillary social costs. In 2010 Tennessee took custody of 484 children after meth-related incidents, at an average cost of $106 per day. Around one-third of burn victims treated at Nashville's Vanderbilt Burn Centre were involved in meth-lab explosions.

Until recently Oregon faced similar problems. Between January 2003 and October 2004, before pseudoephedrine products went behind the pharmacy counter, Oregon averaged 40 discoveries of active or abandoned meth labs every month. In July 2006 a state law went into effect making the remedies available by prescription only. Incidents had fallen to 2.5 per month by December 2006, and 2009 and 2010 saw just 13 incidents each year. Mississippi has passed its own prescription-only law, which went into effect on July 1st 2010; since then the state has seen a 70% reduction in meth-related cases. Similar laws are now under discussion in state legislatures in Indiana, Kentucky, Nevada, Tennessee, Virginia, and West Virginia, as well as elsewhere.

Federal law already places restrictions on how much pseudoephedrine one person can buy in a 30-day period, and also requires that all sales should be logged. These measures caused a decline in meth labs at first, but "smurfing"-going from pharmacy to pharmacy to amass large amounts of pseudoephedrine-ended up subverting them. It also created a black market in legally purchased cold medicine, a box of which can be bought for $7 and resold for as much as $80.

The Consumer Healthcare Products Association, which represents over-the-counter-drug manufacturers, opposes the new measures. It has created and paid for an electronic tracking system now being introduced in eight states, which it says

blocks sales of around 40kg of pseudoephedrine per month. The fight between the industry and the regulators threatens to be long and drawn-out-like America's war on drugs itself.

Index | United States

Teaching standards

Don't know much about history

Feb 17th 2011 | *CHICAGO* | from the print edition

The dismal state of a vital subject

AMERICAN history is in vogue, if not well understood. American revolutionaries are reincarnated as tea-partiers. Pocket editions of the constitution are a must-have accessory for politicians. Last month Michele Bachmann, a congresswoman and tea-party favourite, told Iowans that America's Founding Fathers "worked tirelessly until slavery was no more". Never mind that this was untrue. It sounded nice.

History teaching is far from the biggest crisis in American education. But it is a problem nevertheless, and a neglected one. A broad effort to create voluntary national standards does not include history. No Child Left Behind, George Bush's education law, tests pupils on maths, reading and science. On February 14th Barack Obama stressed the importance of teaching science, technology and 21st-century skills. Meanwhile America's schoolchildren score even more poorly in history than in maths: 64% of high-school seniors scored "basic" on a national maths test in 2009, but only 47% reached that level on the most recent national history test.

One problem, a new report argues, is that states have pathetic standards for what history should be taught. Good standards do not ensure that students will learn history. But they are a crucial guide, according to Chester Finn of the Fordham Institute, a conservative think-tank. A study from Fordham, published on February 16th, grades each state for the quality of its history standards. Twenty-eight states received a "D" or an "F".

Many states emphasise abstract concepts rather than history itself. In Delaware, for example, pupils "will not be expected to recall any specific event or person in history". Other states teach children about early American history only once, when they are 11. Yet other states show scars from the culture wars. A steady, leftward lean has been followed by a violent lurch to the right. Standards for Texas, passed last year, urge pupils to question the separation of church and state and "evaluate efforts by global organisations to undermine US sovereignty through the use of treaties".

Some states fare better. South Carolina has set impressive standards-for example, urging teachers to explain that colonists did not protest against taxation simply because taxes were too high. Other states, Mr Finn argues, would do well to follow South Carolina's example. "Twenty-first century skills" may help pupils become better workers; learning history makes them better citizens.

Index | United States

Performance bonds

Who succeeds gets paid

Feb 17th 2011 | *NEW YORK* | from the print edition

Barack Obama imports a big idea from Britain



Fancy a flutter?

BURIED in the detail of Barack Obama's proposed 2012 budget is a rule change that could have a big impact on how America tackles its thorniest social problems. The new rule would allow various government agencies to issue "pay for success bonds". These would be bought by private investors and the money used to finance projects run by charities or businesses. But the investors would only be repaid, or make a profit, if the projects achieve certain results agreed in advance, such as reducing youth crime or getting students from poor areas into higher education.

Mr Obama proposes that up to $100m be freed up to run pilot schemes to test the idea. The rule changes are needed so that money can be committed over longer periods than is usual in public contracts, and repayment be made contingent on performance. They would also allow for much less detailed terms on the methods to be used, rather than on the outcomes, than is typical. Public money can be set aside for evaluation of whether the targets have been met.

The Pay for Success Bond is a catchier name for its British inspiration, the Social Impact Bond, the first of which was launched last year by David Cameron's coalition government. (Social Finance, a sort of investment bank for the social sector, which designed the Social Impact Bond in Britain, this week launched a sister organisation in America, to find suitable candidates for Pay for Success Bonds.) These raised money from private investors to fund the expansion of schemes run by charities to reduce the reoffending rate among certain categories of criminal after their release from jail. If the recidivism rate falls far enough, investors can earn up to a 13.5% annual rate of return. If there is no improvement, investors could lose all their money.

The search is now on to find suitable pilot projects. The mayors of New York City and Baltimore are said to be keen to apply. Another possible candidate is the National Guard Youth Challenge, overseen by the Defence Department, which applies military discipline to provide skills training to at-risk youth. All this is a lot more inspiring than arguing over which bits of public spending to cut.

Index | United States

Lexington

How Obama handled Egypt

Feb 17th 2011 | from the print edition

Crossed wires, close calls but a good result-until the next friend wobbles



UNLIKE the Egyptian army, which showed impressive restraint in Tahrir Square, many of Barack Obama's critics wasted no time before opening fire on his handling of the revolution in Egypt. Quickest on the trigger were those Republicans harbouring presidential ambitions of their own. Newt Gingrich said the administration had been "amateurish"; John Bolton (yes, the strident former UN ambassador really is contemplating a presidential run) called the White House "hesitant, inconsistent, confused and just plain wrong"; Tim Pawlenty said Mr Obama's team had shown all the consistency of a "Tower of Babel".

Quite a few more objective analysts have also stormed into Tahrir Square with polemical guns blazing. In *Newsweek* Niall Ferguson, a British historian, declared that the president had presided over "a foreign-policy debacle". Michael Scheuer, the former head of CIA operations against al-Qaeda, claimed that Osama bin Laden would be doing a "happy dance" at the spectacle of America pulling down a loyal ally. Marc Thiessen, a think-tanker at the American Enterprise Institute, said that an over-cautious Mr Obama had failed to show the Egyptian street that America was on its side. And Dimitri Simes, a distinguished former Kremlinologist, argued there was no need for the president to have thrown a friend off a cliff instead of hedging his bets as events unfolded: "After all," said Mr Simes, "Egypt is not an American protectorate and the president need not act as if it were his prerogative or responsibility to shape events there."

The first thing to be said about such criticisms, of which the foregoing is a mere sampling, is that they cannot all be right. Mr Obama stands accused both of dumping an ally prematurely and also of having hesitated too long before coming out for the demonstrators. Well, it might be one or the other but it can hardly be both. It is also important to note that Mr Obama has won his share of plaudits, including that of John Boehner, the Republican leader in the House of Representatives, who said he had managed the crisis well. Moreover, all such instant judgments are based not only on incomplete knowledge but also on untestable what-ifs. America's self-regarding politicians and pundits naturally assume that American words and deeds helped shape events in Cairo. It is indeed possible that Washington's advice to Egypt's American-trained army helped to prevent Tahrir becoming Tiananmen. But it is no less possible that the outcome would have been the same no matter what the superpower said or did.

In fact Mr Obama himself appears to have decided early on that events had slipped beyond Hosni Mubarak's control, let alone America's. On January 28th he gatecrashed a meeting in the situation room, shunted Tom Donilon, his national security adviser, out of the chair, and took charge himself. The next day Mr Donilon drafted a ten-point memo summarising the president's view that the status quo in Egypt was untenable and that political change was inevitable. Mr Obama is said to have been more certain in private that Mr Mubarak's jig was up than America's public pronouncements (especially those of Hillary Clinton, his sometimes behind-message secretary of state) let on. He flatly rejected the Israelis' analysis that the Egyptian president could hang on and that America should do everything to help him. Mr Obama's conversation with Mr Mubarak on the evening of February 1st is said to have been the toughest between an American president and an ally since Ronald Reagan's scolding of Menachem Begin during Israel's bombing of Beirut in August 1982.

At a press conference this week Mr Obama said that America had put itself on the right side of history while never pretending that it could or should dictate the outcome in sovereign countries. And whatever influence he did or did not

have on the downfall of Mr Mubarak, he gives every sign of being satisfied with the result. The White House believes that the peaceful toppling of an Arab autocrat gives America a fresh opportunity to align its interests with its values, undermine the violent alternative offered by al-Qaeda and slam Iran's violent suppression of its own pro-democracy protests. To those who contrast Mr Obama's more muted support for Iran's democrats in 2009 with his behaviour in the case of Egypt, the administration's answer is that in the former case too much American support for the protests would have helped the regime portray the opposition as a tool of the United States. That consideration did not apply in Egypt.

So how did he do?

This has been the most testing foreign-policy crisis of Mr Obama's presidency, and his performance so far gives ammunition to fans and foes alike. It is true, as Messrs Pawlenty and Bolton say, that some wires got crossed. If Mr Obama decided early on that Mr Mubarak had to go sooner rather than later, the State Department and former ambassador Frank Wisner, America's emissary to Mr Mubarak, should have got the message sooner. Still, crossed wires are only to be expected during fast-moving events. What counts is the result, and this has been no disaster. America remains on good terms with Egypt's new military masters without having alienated its youthful pro-democracy demonstrators-a neat balancing act whether by luck or design.

That said, harder choices may lie ahead. By his actions in Egypt, Mr Obama has put other authoritarian allies on notice that this president does not buy the "our son-of-a-bitch" theory. He thinks that even pro-Western autocracies that fail to reform deserve to die. But how much reform? And when will he decide they are dying? Will Mr Obama abandon gradual reformers such as King Abdullah or King Mohammed as soon as enough people turn out on the streets of Jordan or Morocco? How many people are enough? To judge by the gale rattling the Arab world this week, he may have to answer such questions rather soon.

Economist.com/blogs/lexington

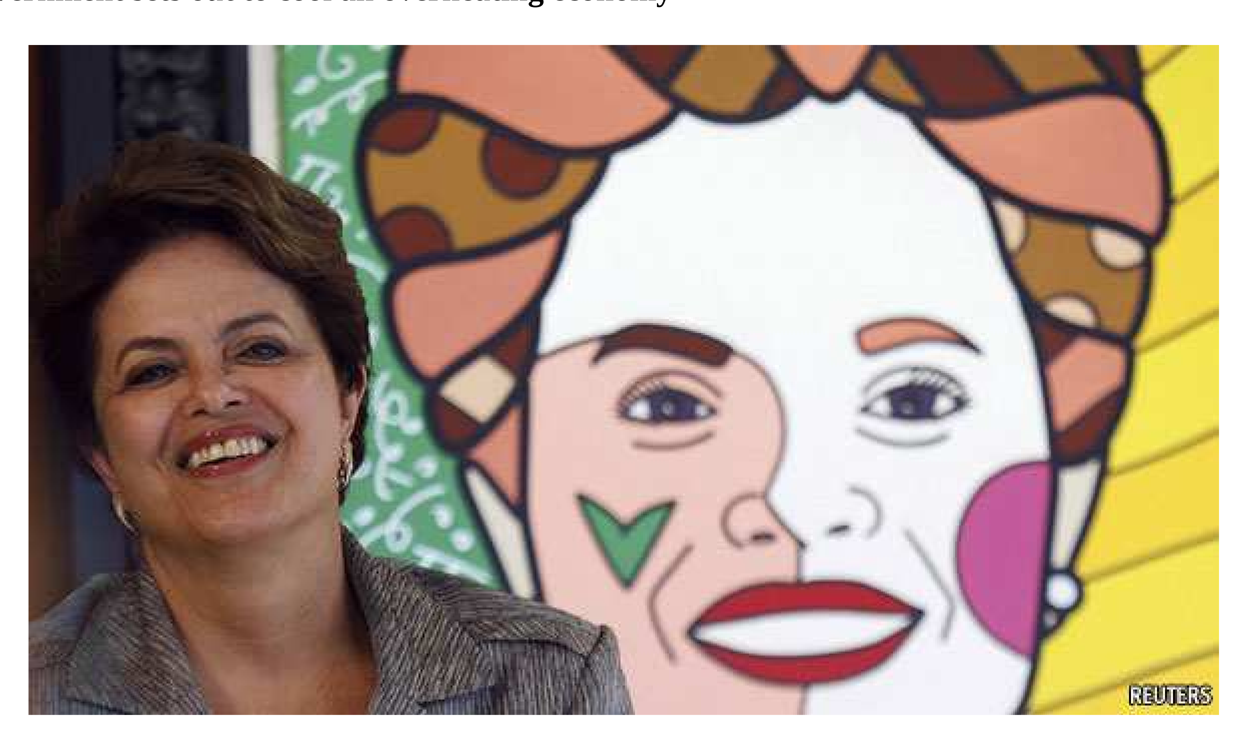
Index | The Americas

Brazil's fiscal policy

How tough will Dilma be?

Feb 17th 2011 | *SÃƒO PAULO* | from the print edition

The new government sets out to cool an overheating economy



Correction to this article

ON FEBRUARY 16th Brazil's new president, Dilma Rousseff, faced her first serious test in Congress, and passed it. Trade unionists, opposition politicians and even some members of her own coalition had tried to force through a big increase in the minimum wage. Instead, as Ms Rousseff wanted, it will rise from 510 reais ($305) a month to just 545 reais, barely outpacing inflation. Tough politicking behind the scenes by Antonio Palocci, her heavyweight chief of staff, together with the bait of unfilled senior jobs in the government, kept most members of her coalition in line. Her predecessor, Luiz Inacio Lula da Silva, did his bit too, telling his trade-union friends that seeking more money was "opportunism".

At first sight it seems an odd year for Ms Rousseff to be stingy. Brazil is booming, and in the private sector many workers are getting double-digit pay rises. Brazilians have grown used to big rises in the minimum wage. During Lula's eight years in office he boosted it by around 60% in real terms. That is one reason why income distribution has become less unequal in recent years, why Lula was so popular and, ultimately, why Ms Rousseff was elected last October.

The government's figure stuck to the letter of a deal brokered by Lula with the unions in 2006 to raise the minimum wage each year by the sum of the previous year's inflation and GDP growth from the year before that. In 2008 the economy shrank slightly. But if Ms Rousseff had wanted to be generous, she could have brought forward some of the whopping 13% that this formula is likely to award in 2012. The main reason for her parsimony was the impact on public-sector wages and pensions, which are linked to the minimum wage. All told, each real by which it rises costs the government 286m reais a year.

Ms Rousseff badly needs to get a grip on government spending. In 2008 government loans and tax breaks helped Brazil to escape the worst of the great recession. But rather than turning the taps off when the economy started growing again, the stimulus blended seamlessly into a pre-election binge. Last year the government missed its target of running a 3% primary fiscal surplus (ie, before debt payments). Without money from the sale of oil rights, and had it not funnelled government loans through the national development bank, it would have missed it by a mile.

The result is an overheating economy. Inflation, at 6%, is well above the Central Bank's target of 4.5%. The currency is painfully strong and unemployment is at its lowest since records began. The bank has already raised its benchmark rate once (to 11.25%) since Ms Rousseff took office, and more increases are expected soon. Officials hope that stricter rules on banking reserves and consumer credit will also help to dampen consumer demand.

The minimum wage will not be the only policy to feel the pinch. On February 9th Ms Rousseff said she would cut 50 billion reais, or around 2.5%, from the budget passed by Congress late last year. Her finance minister, Guido Mantega, promised efficiency savings and said expenses such as daily allowances and travel costs for civil servants would be squeezed. He asked the Fundacao Getulio Vargas, a university, to run a comb through departmental payrolls. Further details were delayed until after the vote on the minimum wage.

That delay is politically understandable: budget pork added by congressmen is a prime target for cutting. But the wait has also left analysts wondering where exactly the axe will fall. Efficiency savings of the type Mr Mantega set out are worthwhile, but will yield little more than loose change. Most of the budget consists of things that cannot be cut, at least not quickly, such as payroll, health-care and education spending. The previous time Brazil endured a fiscal tightening, after Lula took office in 2003, the government resorted to chopping public investment.

Ms Rousseff has already ruled out cuts not just in social programmes, such as Bolsa Familia, a cash benefit that goes to 12m poor families, but also in infrastructure spending. She may resort to new taxes. But some analysts think she will turn to private investors to finance transport improvements. That would look like a U-turn: during the campaign she attacked her main opponent, Jose Serra, for his alleged privatising tendencies. But she is short of other options. Upgrades for roads and airports, which bear the marks of past spending cuts, are essential if Brazil is to avoid embarrassment when it hosts the World Cup in 2014 and the Olympics in 2016-and, more importantly, if it is to sustain economic growth in the long term.

Correction: We originally wrote that the Brazilian economy shrank in 2008. It didn't: we should have referred to 2009. This was corrected on February 18th 2011.

Colombia and the United States

Trade disunion

Feb 17th 2011 | *BOGOTA* | from the print edition

Santos's China card

SOMETIMES the way the United States behaves in Latin America seems calculated to oblige its friends to seek other allies. Take Colombia, the most pro-American country in the region over the past decade. Not only has the United States Congress failed to ratify a free-trade agreement signed in 2006, but this month it failed to renew trade preferences dating from the 1990s under which more than half of Colombia's exports enter tariff-free.

The failure to renew the Andean Trade Promotion and Drug Eradication Act (ATPDEA) was caused by a domestic political squabble, and may soon be rectified. But Colombia is getting fed up with American disdain. Its new president, Juan Manuel Santos, says that if the trade agreement is not ratified this year, "we will not keep insisting." The United States is Colombia's biggest trade partner. Mr Santos hopes the agreement will boost investment. But the ATPDEA, a tool in the American drug war, already helps Colombian exporters, so their American counterparts have more to gain from ratifying the trade agreement.

Barack Obama's administration has been lukewarm, because many Democrats think free trade kills jobs and some worry about human-rights violations in Colombia. Mr Obama has said that he would not push for ratification until he was "certain they are not killing union leaders" in Colombia. Nevertheless, this month he told Ron Kirk, his trade representative, to find out whether there are fewer killings and more are being punished.

Mr Kirk will be disappointed. Last year 49 union members were killed, say the unions, or 34 (a fifth higher than the previous year) according to the government. A special unit of the prosecutor's office is investigating 1,300 killings of trade unionists, stretching back to 1986, but has achieved convictions in only 14% of these cases.

Yet these numbers represent a lower death toll and higher clean-up rate than those for Colombians who are not union members. It is unclear how many of the deaths are related to union activities. And anyway, many Colombians argue that by boosting economic growth the agreement would help strengthen human rights.

Mr Santos's government is showing "genuine concern" over the killing of trade unionists, according to Jose Miguel Vivanco of Human Rights Watch, a New-York-based group, which opposes the trade agreement. It is also showing rather more determination than its predecessor against the criminal gangs which are often behind the killings.

With Republicans running Congress, the agreement may have more chance of ratification. The Senate Finance Committee has asked Mr Kirk to present a plan to settle the disagreements by March 9th. If it is finally ratified, Colombia may have China to thank. Evidence to the Senate foreign-relations committee forecasts that China, already Colombia's number two trade partner, will become the biggest in the next decade without an agreement. That may concentrate minds in Washington.

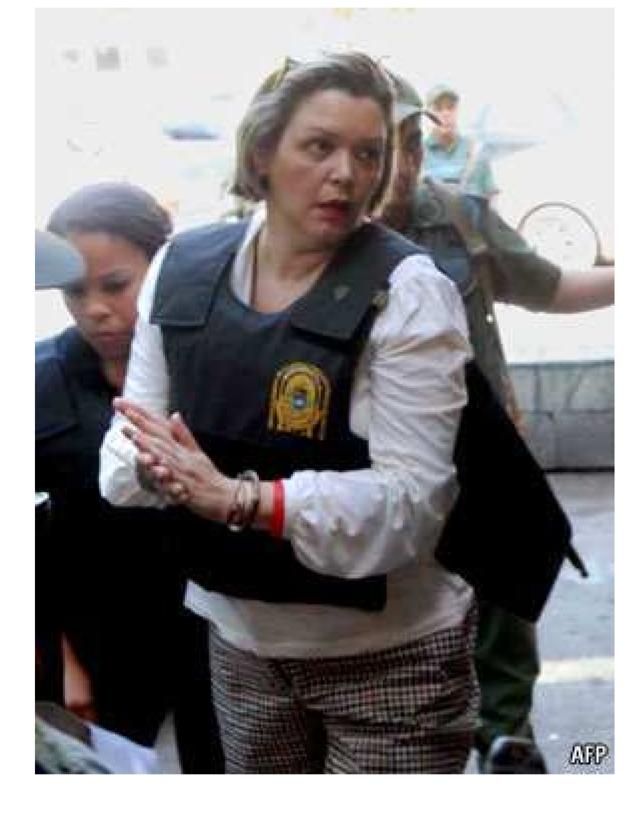
Index | The Americas

Venezuela

Criminals or dissidents?

Feb 17th 2011 | *CARACAS* | from the print edition

A jailed judge pays the price for defying Hugo Chavez



BIAGIO PILIERI, a former journalist and mayor, was until recently little known in Venezuela. But last September he was elected to the National Assembly. He has been unable to take his seat because, despite parliamentary immunity, he is under house arrest, awaiting trial for the third time on corruption charges of which he has already been cleared.

Mr Pilieri is just one of more than two dozen Venezuelans that opponents of President Hugo Chavez say are political prisoners. They include two other elected representatives. Thousands of opposition supporters have been subjected to political persecution, ranging from loss of government jobs to pursuit through the courts. Some have fled abroad.

The most prominent of the exiles is Manuel Rosales, the opposition's presidential candidate in 2006. A corruption case against him, shelved for lack of evidence, was revived by Mr Chavez in 2008 during regional elections. "I am putting myself at the head of Operation 'Imprison Manuel Rosales'," Mr Chavez told a cheering crowd of supporters. After being elected as mayor of Maracaibo, Venezuela's second city, Mr Rosales sought refuge in Peru, which has also granted asylum to several other opposition figures.

The government says all those on the opposition's list are common criminals. Until now, international bodies have not challenged that view. But the case of Maria Lourdes Afiuni (pictured), a judge who has been in jail since December 2009, is starting to attract condemnation.

Ms Afiuni's offence was to have ordered the release of Eligio CedeÃ±o, a banker who was another self-declared political prisoner, on the grounds that he had been detained for almost three years without trial. In doing so, she was not only applying Venezuelan law (which limits pre-trial detention to no more than two years) but also a declaration on Mr CedeÃ±o's case by the United Nations Working Group on Arbitrary Detention.

Mr Chavez saw things differently. The day after her arrest, the president called her a "bandit" and demanded she be imprisoned for 30 years. She was locked up in a two-metre by three-metre cell, 24 hours a day, in a jail which also housed violent offenders she herself had sentenced. Her health deteriorated. The UN working group added her to its list of the arbitrarily detained and the Inter-American Commission on Human Rights called for her to be tried or released. After she had a medical operation this month, she was granted house arrest. But she may be sent back to jail after convalescing.

Her case is merely the most cruel instance of the pressure applied to judges and prosecutors. Human Rights Watch concluded in a report in 2008 that Mr Chavez had "effectively neutralised the judiciary as an independent branch of government". The official version, expressed recently by Fernando Vegas, a supreme-court justice, is that judges must "apply the law severely in order to punish conduct ...that negatively affects the construction of democratic, Bolivarian socialism".

Two dozen people, most of them students, are staging a hunger strike in Caracas and Maracaibo in support of the dissidents. As well as demanding fair trials and respect for parliamentary immunity, they are calling on Jose Miguel Insulza, the secretary-general of the Organisation of American States, to intervene. A year ago, in response to a previous

hunger strike, Mr Insulza said he would go to Venezuela to investigate. But since the government refuses to invite him, he cannot visit. And Ms Afiuni, Mr Pilieri and their fellow prisoners remain in detention.

Population control in Beijing

Air-raid warnings

Feb 17th 2011 | *BEIJING* | from the print edition

As the leaders see it, a plague of human rats in the capital



A FRUIT-SELLER walks from his stall, across a snowy courtyard, to a shabby little building overshadowed by apartment blocks. A sign advertises "semi-underground rooms", but the building is the entrance to an air-raid shelter built at the height of Sino-Soviet tensions deep beneath the courtyard, where the merchant lives in a tiny windowless room with his wife (like the couple pictured). If the Beijing authorities have their way, he will not be in the shelter for much longer.

City officials are deluged with complaints about traffic jams, crowded public transport and creaking schools and hospitals. In recent months they have revived long-neglected pledges to control the growth of the city's population. They do not say so openly, but Beijing's leaders are busy erecting new barriers to entry for unskilled workers. In December plans were revealed to close down the shelter dwellings within a year. Officials also made it clear that basement accommodation would go too. The local media say the measures could affect more than 1m people.

The fruit-seller is worried. If they close his air-raid shelter, where his room occupies 12 square metres (130 square feet) and costs 330 yuan ($50) a month, he says, he will have no choice but to return to the village in the southern province of Jiangxi from where he and his family moved five years ago. "They want to get rid of outsiders," he says bluntly. His landlady says that many of her underground tenants share his view.

Rarely since the 1980s, when China's strict controls on migration from countryside to town began to break down, has the capital appeared so determined to reverse the tide. A key event was an investigation last summer which found that Beijing's population (those living in the city for six months or longer) had topped 19.7m by the end of 2009. This was 2m more than official figures had suggested. In a development plan published seven years ago, the government had aimed not even to reach 18m before 2020. The figures are a bit misleading, because Beijing municipality covers an area half Belgium's size, with far-flung satellite towns and a rural expanse. But even the city proper has grown to more than 10m, from 8.5m a decade ago.

In October a Communist Party resolution called on smaller cities to embrace more migrants and for bigger ones to control their influx. That stiffened Beijing's resolve. So too, said *Caijing*, a fortnightly magazine, did the dissatisfaction expressed by party leaders with Beijing's traffic congestion. (Never mind that official events and cars are big contributors to the jams.) Chinese leaders have always been especially sensitive about rural migrants in the capital, fearing they might include dangerously disgruntled elements. Many underground housing facilities were temporarily closed down before Beijing's Olympic games in 2008 and again in 2009, before the 60th-anniversary celebrations of communist China's founding.

In late December officials introduced swingeing new measures to ease the traffic. These included limiting the number of licence plates issued this year to just one-third the number in 2010. To qualify for plates, migrants need to have lived in the city for five years, with evidence that they have a job and have paid taxes. It bars most from buying a car. The new rules also ban out-of-town cars in much of the city during peak hours.

During meetings of Beijing's district and city-level legislatures in January, a frenzy of calls by party-picked delegates demanded tighter population controls. An old slogan was dusted off about using housing, employment and identity papers to keep numbers in check. Closing down underground accommodation, officially on health and safety grounds, was touted as one useful technique. Another was a crackdown on partitioning flats for rent. On February 16th the government announced that homebuyers would be subject to similar restrictions as people buying cars. For the first time in years, says *Century Weekly*, another magazine, officials are talking about making the *hukou*, a proof of domicile that is hard to obtain when not inherited and that confers all sorts of health and welfare rights, even more difficult to get.

Last year some officials praised Shunyi, a semirural suburb popular among expatriates, for controlling population growth. It had hindered the founding of the small, service businesses that attract migrant labour (though a commentary on the website of one national newspaper likened the "Shunyi model" to South African apartheid). In January Fangshan, another suburb, declared that it would use similar techniques to eliminate what it calls the "five little enterprises and six small places" by 2015. These include labour-intensive industries and small restaurants and guesthouses. A Beijing deputy mayor was quoted as saying in January that the whole city would raise the threshold for permits for such businesses, which employ hundreds of thousands of migrants.

Beijing's exclusionary bent has its critics. Hundreds of angry landlords of underground housing have petitioned the government to change its mind. Even the state-controlled press has aired dissent. One scholar has been quoted as saying that the capital's fixation on a numerical limit has no scientific basis and that market forces should determine its population. Others say the ban on underground housing is unenforceable (some members of the "rat tribe", as the Chinese press sometimes calls the subterranean dwellers, agree). Still more complain that the government's heavy hand is pushing up rents for other kinds of budget accommodation.

A year ago a daring joint-editorial published by several newspapers in defiance of Communist Party wishes called for the *hukou* system to be scrapped. It fell on deaf ears. In October Chen Gui, a senior cadre in the China Real Estate Association, wrote that the number of "low-income, low-quality and ill-educated outsiders" should not be allowed to increase in megacities like Beijing. That, it seems, is more like the official line.

Index | Asia

A golf craze in Beijing

A course by any other name

Feb 17th 2011 | *BEIJING* | from the print edition

Never mind the environment, build more greens



Once farmland, now Versailles at Pebble Beach

AN ACUTE shortage of water, say Beijing officials, is one important reason for limiting the city's growth. Rarely in recent memory has water scarcity been so apparent as this winter, which saw 108 dry days before snowfall on February 9th-the latest to arrive in 60 years. When it comes to water-hungry golf courses, however, a blind eye is turned.

Golf has been a favoured sport of the elite since the 1980s, when Zhao Ziyang, then Communist Party chief, played at one of the city's first clubs. To make the pursuit more palatable to xenophobes, the state media ran stories brazenly claiming that the game was invented in China hundreds of years before the Scots had ever heard of it.

By 2004, the golf craze was getting embarrassing. Not just in the capital, perennially afflicted by drought, but nationwide a profusion of golf courses was eating up scarce farmland. The government banned the building of new courses. Beijing already boasted 38, but they appear to have been far from enough to satisfy demand. In January *Southern Weekend* reported that construction in the capital, as elsewhere, defiantly continues apace.

The newspaper said that telephone directories alone showed the existence of more than 60 courses in Beijing; other materials suggest 73. A recent aerial survey by the government confirmed 170 golfing establishments (including driving ranges), of which at least 70 were illegal. Developers appear to have got away with it simply by not calling them golf courses.

For all the fretting about this winter's drought, Beijing shows little sign of renewing the onslaught on golf (or on skiing, another popular pastime around Beijing, for which snow is created artificially). The drought has hit eight provinces that produce much of China's wheat. Crop-damage could send already fast-climbing food prices much higher. The game, though, goes on.

Index | Asia

Thailand's motorbike taxis

Enter the orange shirts

Feb 17th 2011 | *BANGKOK* | from the print edition

The capital's crucial two-wheeled political class



A street-level view of Thai society

IN A city of clogged streets, motorbike taxis are the essential lubricant. They weave through rush-hour traffic, mount pavements and roar down the labyrinthine alleys known as *soi*. They lurk in gangs on street corners, waiting to carry people or goods, or run errands. Some 200,000 drivers sporting orange jackets are reckoned to ply their trade in Bangkok.

The motorbike drivers are mad about politics, which in Thailand is colour-coded. The drivers are overwhelmingly "red" and loyal to a former prime minister, Thaksin Shinawatra. Most hail from the pro-Thaksin north-east, and were in the thick of the action during last year's rowdy red-shirt rallies. Motorbikes were the red-shirt cavalry, keeping tabs on the movements of state troops, who ended the protests with the loss of 91 lives.

This is an election year, and every vote counts. So the prime minister, Abhisit Vejjajiva, no red shirt he, has singled out motorbike taxis for attention under a new, pro-poor programme called the People's Agenda. Along with millions of other informal workers, motorbike drivers will be eligible for social security, loans from state banks and other benefits. To drive the point home, Mr Abhisit posed with an orange-clad motorbike driver at the launch of the programme, which he described as a "New Year's gift" to Thai people.

But access to credit and sick pay do not top the drivers' agenda. More important, they say, is taking on the "influential people", mostly corrupt cops, who extort money. Those who do not pay may not work, so almost everyone coughs up. "We don't want a gift from the government," says Wichart Chungchuen, a veteran driver. "We want to make sure that if we make 500 baht a day, it stays in our pocket."

One reason why Mr Thaksin remains so popular is that he cracked down on the overlords. He also ensured that motorbike taxis were registered with city hall and that their drivers were issued with numbered jackets. After Mr Thaksin was ousted in a military coup in 2006, the extortionists returned to demand their cut. The registration system unravelled as drivers traded jackets or dropped out and others arrived with unregistered bikes. Some jackets ended up in the hands of the "influential people", who rented them out or sold them on for up to 150,000 baht ($4,900).

Starting on February 15th all motorbike taxis began to be reregistered. This should make it easier to curb the pay-offs. But Mr Wichart is sceptical that the government means business. Whereas Mr Thaksin broke bread with drivers and listened to their gripes, an aloof Mr Abhisit merely sent his aides.

Last year Mr Wichart and other motorbike taxi drivers formed a trade union. Wary of being painted as red-shirt partisans, the union tries to steer a moderate path. Leaders insist that they are neither red nor yellow, the colour of the staunchly conservative rival movement. They are orange shirts, after their distinctive jackets.

Yet neutrality may prove a stretch in Thailand's polarised politics. Drivers are keen observers, says Claudio Sopranzetti, a Harvard anthropologist studying the tribe. They slip between the cracks in society, flitting between rich and poor quarters, city and countryside. Better than anyone, they see Thailand's inequalities.

Indonesia and its place in the world

Feet of clay

Feb 17th 2011 | *JAKARTA* | from the print edition

Religious intolerance at home thwarts ambitions abroad

INDONESIANS are used to mixed news about their country. Even so, February 7th was an unusually contradictory day.

The government crowed that GDP had grown by 6.9% year-on-year in the last quarter of 2010, the highest figure for six years. One minister predicted that under the government's cunning economic master plan, the country was set to become one of the world's ten biggest economies within 15 years. First world here we come.

Yet the same morning it was reported that a mob of hundreds of Muslims had stabbed and beaten to death three members of the small Ahmadiyah Muslim sect in a village not far from the capital, Jakarta. It was the most frenzied and bloody incident of religious violence in Indonesia for a long time, embarrassingly plain for all to see on a video circulating on the internet.

The next day another mob of 1,500 Muslims went on the rampage in the central Javanese town of Temanggung. This time they were angry about a court verdict given to a Catholic man accused of blaspheming Islam. He got the maximum sentence, but this apparently was not enough for the protesters, who burned three churches to the ground.

A roaring economy and religious violence are evidence of a growing disparity between Indonesia's global ambitions and its problems at home. South-East Asia's most populous land feels it is time to play a bigger role on the world stage, by virtue of its economic size and its status as the world's third-largest democracy. Yet many Indonesians are now saying that if their country is to be taken seriously abroad, it will have to clean up its act at home.

Er, follow our example

Indonesia's more robust foreign policy is partly a matter of happenstance, partly a product of President Susilo Bambang Yudhoyono. He is serving his second and final term in office, a natural time to look overseas to burnish his legacy. In 2009 Indonesia joined the G20 club of major economies, giving it a higher profile. In January Indonesia took over the rotating leadership of the Association of South-East Asian Nations (ASEAN), the ten-nation regional body.

Mr Yudhoyono's government has also taken its own initiatives. The president has improved sometimes strained ties with the United States. America, for its part, sees Indonesia as a counter to China's ambitions in the area, as does India. Mr Yudhoyono was recently feted in India, where he signed $15 billion-worth of trade deals.

Another presidential initiative was the founding, with Australia, of the Bali Democracy Forum in 2008, to promote human rights and democracy. To begin with, America was among those who dismissed the new outfit as a talking shop, particularly since the likes of Myanmar were invited. But the forum's credibility has grown, and many countries, including America, now send senior representatives to the annual event. The forum is an attempt to carve out a niche for Indonesia in Asian diplomacy. The country trades on its democratic record since the fall of Suharto, the late dictator, in 1998, as well as on its supposed commitment to religious moderation. The archipelago of 237m people is home to the world's largest Muslim population.

Yet here pretensions meet hard reality. In the wake of the Ahmadi killings, some Indonesians point not just to the absence of the state when it is needed—the police failed dismally to protect the rights, let alone lives, of the Ahmadis. They also accuse the government of sanctioning attacks because it bowed to pressure from hardliners in 2008 and passed a decree banning Ahmadis from proselytising or worshipping in public. Scores of attacks on Ahmadis have taken place since. The suspicion remains that government and the police fail to be tough on Indonesia's Islamic extremists for fear of provoking a backlash, thus allowing intolerance and bigotry to flourish. One academic outfit, the Wahid Institute, estimates that the 100-plus religiously motivated attacks and instances of intolerance last year marked a 50% increase over 2009.

In foreign policy Indonesia ducks and fudges too. Anies Baswedan, an academic and presidential adviser, believes that Indonesia could afford to be "much clearer and more outspoken" against Myanmar's egregious human-rights violations and its flouting of democratic norms without alienating other members of ASEAN. Furthermore, such a stand would also send a sharp message to a domestic audience that Indonesia has "zero tolerance on human-rights violations and religious violence abroad and at home".

It would be a compelling message for a president keen to make his mark. Diplomats and investors will now be watching the resumption of the trial this week of a radical Muslim cleric, Abu Bakar Basyir, accused of helping to set up an Islamic-militant training camp in Aceh province. He was previously convicted of involvement in the bombings in Bali in 2002, which killed over 200 people. Mr Basyir's previous sentences have been light. If found guilty this time, will it be zero tolerance, or more fudging still?

Reviving talks between India and Pakistan

In hope, not expectation

Feb 17th 2011 | *DELHI* | from the print edition

Neither government looks strong enough to get far with peace talks



Strutting, not gabbing

TOOTHLESS and turbaned, the porters who loiter at Wagah, on the Indian side of the only border crossing by road with Pakistan, are a frustrated lot. Aside from the odd diplomat or journalist, few need a bag carried. Only the very occasional lorry laden with vegetables trundles over the frontier. Walk into Pakistan, and the mood is equally sullen. Money-changers, slumped in chairs in the immigration hall, ask listlessly if any tourist bus is waiting to cross. As the power cuts out, officials drift outside to play cricket in the dust.

Ties between India and Pakistan are in poor shape. India's economy booms, yet hardly anything is traded with next door. A mere handful of direct flights each week connect the world's second and sixth most populous countries; and even these planes are only half-full. The long and disputed border still bristles with military men and hardware.

In theory, things might soon improve. Representatives at a regional meeting in Bhutan this month said that foreign ministers will restart much-delayed bilateral talks, probably in July. In March the two most senior home officials will meet in Delhi to discuss terrorism. A "composite dialogue" on a range of problems from the disputed control of Kashmir to cross-border terrorism and trade will restart. India called off the dialogue after terrorists from Pakistan killed 166 people in a rampage in Mumbai, in November 2008.

Optimists can tick off reasons to hope for progress. Since a terrorist blast a year ago in Pune, India has suffered no big attack. India chose not to blame Pakistan last year when unrest flared in Indian-run Kashmir. It said, too, in January that it would pull some of its many soldiers from the territory. India has also dropped its condition that bilateral talks could only proceed if Pakistan authorities put the alleged masterminds of the Mumbai attack in court-which they are unlikely to do.

In turn, Pakistan's civilian leaders acknowledge India's growing economic and diplomatic heft. They note how outsiders, notably America, are courting the emerging power. Pakistan's relative strength is bound to decline, so engaging now rather than waiting makes sense. It may even help that the new White House envoy to Afghanistan and Pakistan, Marc Grossman, is a low-profile former diplomat. The United States is unlikely to repeat the clunking efforts by his late, press-hungry predecessor, Richard Holbrooke, to tie resolution of the war in Afghanistan to the conflict in Kashmir.

India has good reasons to seek peace. It is alarmed by the growing influence of radical Islamists in Pakistan, and the weakening influence of liberals. Any prospect that its nuclear-armed neighbour might lurch towards becoming a failed state would pose an enormous threat to India. The Indian prime minister, Manmohan Singh, has a record of seeking peace. He met his Pakistani counterpart, Yusuf Raza Gilani, at a summit in Egypt only a few months after the Mumbai attack. Opponents called him soft for issuing a joint statement which noted how both countries suffer from terrorism, and for airing Pakistan's anxiety over separatism in Balochistan, where India is accused of giving militants explosives, weapons and cash.

Two years earlier, back-channel negotiations over Kashmir reportedly brought the governments close to an agreement which would have granted Kashmiris greater autonomy within India, created closer ties with Pakistan-run Kashmir, and made the line of control the international border. These came to nothing, as General Pervez Musharraf was swept from power in Pakistan. Yet Khurshid Kasuri, Pakistan's foreign minister under the general and a party to the working document, says that the process could quickly be revived.

Still, deep problems remain unresolved. Pakistan's government is weak and generally derided. It is unclear even who would be foreign minister in July. The post is currently vacant. Civilian leaders have frequently said they are ready to hold talks with India, but foreign policy is in reality the preserve of the army, and the chief of staff, Ashfaq Kayani, sees India as a mortal threat and a rival in Afghanistan.

With Pakistani military men seeing India's hand behind terrorist attacks in the country, nothing suggests that General Kayani is ready to seek peace. And rather than look for areas of shared interest, such as trade that could boost Pakistan's moribund economy, officials in Islamabad are quick to raise new areas of potential conflict with their neighbours, notably over the use of water from the Indus river.

Meanwhile, Mr Singh, for all his good intentions, is in a weak position to launch a new foreign-policy drive. Battered by the opposition over graft scandals in government and the high price of food, he is on his last political legs, argues Brahma Chellaney, of the Centre for Policy Research in Delhi. On February 16th Mr Singh spoke on national television to deny that he would soon resign. The day before, his government, after months of resisting, was forced to accept a big public inquiry into corruption. The government hardly looks strong enough to overcome the objections to rapprochement by the opposition Bharatiya Janata Party, whose leaders will use any occasion to pounce on him over weakness towards Pakistan.

Index | Asia

Banyan

The wind that will not subside

Hearing Egyptian echoes, China's autocrats cling to the hope that they are different



THE speed with which popular protest swept aside long-lasting authoritarian regimes in Tunisia and then Egypt was enough to unnerve autocrats everywhere. In Asia they have watched the tide of heightened democratic aspiration wash across the Middle East and wondered how far it would go. Even in China, the government, ostensibly so confident of the correctness of the path it has chosen, has been wary of the memories events in Cairo might evoke, and of the hopes it might rekindle.

The most complete Asian despotisms-Myanmar and North Korea-may feel immune to people power. They can rely on their isolation, and on the sheer ruthlessness of their repression. In Central Asian dictatorships, closer in geography, culture and religion to the Middle East, the resonance of the recent revolutions may yet be louder. But it is in China that domestic parallels with recent events, above all in Cairo, are on most people's minds.

They are also of the greatest global consequence, not just because of China's own growing importance, but because its rise has led to talk of a "Beijing consensus" in which rapid economic growth matters more than freedom. In 1989, after the Beijing massacre, as communist dominoes began to topple in eastern Europe, China seemed the outlier, bucking an historical trend that would catch up with it one day. Its subsequent success has made that trend-towards greater freedom and democracy-seem less inevitable, and, for some, less desirable. Even Western commentators have conceded that China's system delivers the goods. Chinese officials talk of the unsuitability for their country of "Western-style" democracy. This ignores the Western, Leninist origins of the Communist Party's organisation, and glosses over the crucial "Western" element missing in China-the ability to get rid of unpopular governments without a revolution. That is why revolutions elsewhere are bound to be of compelling interest.

Recollections of the Tiananmen protests were one reason China's censors at first worked so assiduously to curtail discussion of the unrest in Egypt. The script was so familiar to those who had been in Beijing in 1989: the huge demonstrations; the mood of elated mass solidarity and rediscovered patriotism; the camping-out in the capital's main square; the slogans against corruption and arbitrary rule; the belief that the army had sided with the people against their rulers; even the appearance of plain-clothes thugs in support of the regime. This time, however, the story had a happy ending, or at least a climactic, optimistic victory.

The Chinese press has indeed covered Hosni Mubarak's downfall prominently, while noting, in the words of one newspaper, that "Egypt has won a battle, but not the war". "Any political changes will be meaningless", argued *China Daily*, "if the country falls prey to chaos in the end." Others, however, have drawn a different conclusion from the events that led to a revolution. An editorial on the website of *Caixin*, a media group, began: "Autocracy manufactures turbulence; democracy brews peace."

China's own autocrats may feel, however, that for at least three reasons they can shrug off comparisons with Egypt and Tunisia. First is China's record of three decades of stunning economic growth. A survey by the Pew Research Centre last year suggested 87% of Chinese were satisfied with "the way things were going" in their country. Second, even if they were not, no obvious hate figure exists to blame: China's is a dictatorship of a party, not an individual. No long-serving despot is clinging tenaciously to power. In 2002 the Communist Party had its first-ever orderly leadership transition, and has promised another for 2012.

Third is the efficiency of its extensive internal-security apparatus and armed forces, which are subordinate to the Communist Party. But who knows how the security forces would respond if asked to suppress another mass uprising? They were ready to shoot protesters to quell unrest among ethnic Uighurs in Urumqi in Xinjiang in 2009. But even in 1989 the army did not prove wholly reliable-at least one general disobeyed orders to join the advance into Beijing.

A truly confident Communist Party would not have devoted so much effort to patrolling the internet to prevent surfers drawing parallels at home with events overseas. Always twitchy at any hint of instability, it has plenty of reasons to fret. Inflation, which raged in the late 1980s before the Tiananmen protests, is picking up again. The middle classes, often the locomotive of political change, are growing fast. Widespread graduate unemployment among their young is gnawing away at the hopes of those who should be the most optimistic about China's future. And every year sees tens of thousands of protests, many over high-handed land grabs by local authorities.

And the tree that wants to be still

The latest people-power revolts pose two particular difficulties for China's ideologues. First, they cannot be blamed on the usual suspects, external "black hands"-typically American. Rather, they have been in part anti-American rebellions. As in the Philippines in 1986, South Korea in 1987 and Indonesia in 1998, dictators once cosseted by America have been toppled.

Second, the revolts have lacked both clear ideological aims and coherent organising parties. China's secret police are good at nipping political movements in the bud. But they missed the rise of the Falun Gong sect as a nationwide anti-government force. And despite their firewalls and armies of "harmonising" censors they might struggle to contain a microblog, text-message or social-network revolution. Their efforts to filter news from the Middle East were only partially successful. That may be why they find the news is so unsettling-because the Chinese people might see it not as a recollection of a nightmarish past, but as a vision of a hopeful future.

Economist.com/blogs/banyan

Index | Middle East & Africa

After Mubarak

The autumn of the patriarchs

Feb 17th 2011 | *CAIRO* | from the print edition

A generational change of mentality may bring fresh hope to the entire region



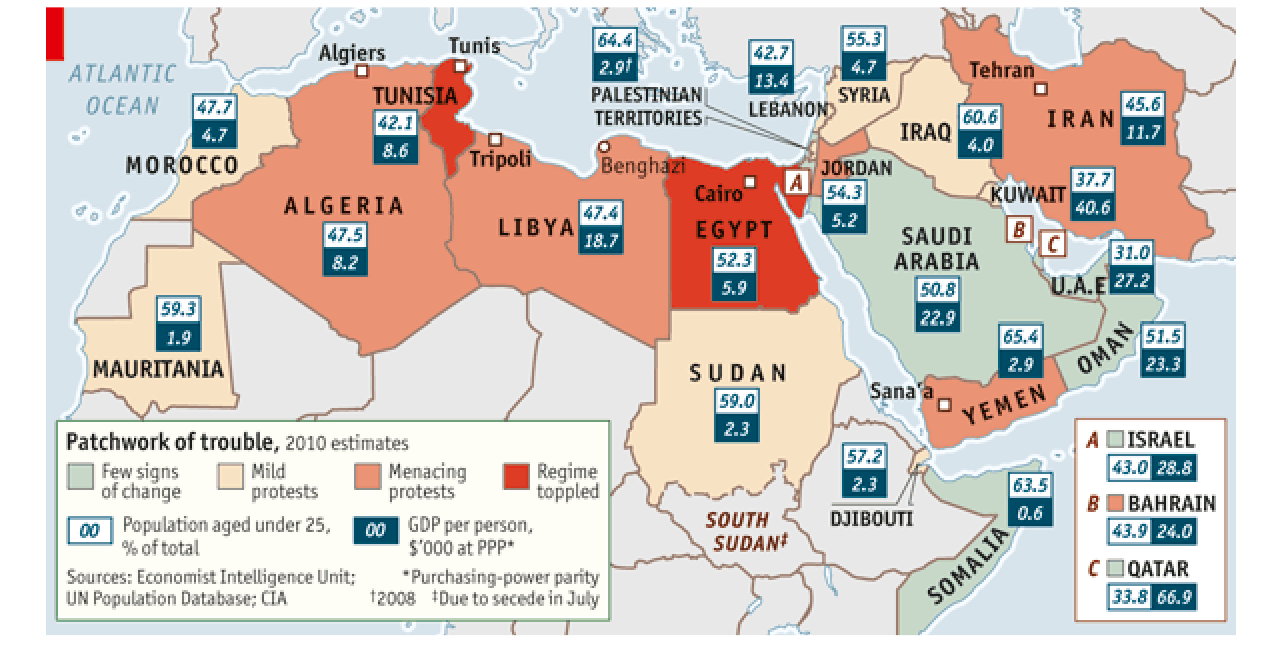
SEMINAL moments in revolutions do not come at nicely spaced intervals, but in a bewildering cascade. The accelerating rush of events leading to the abrupt downfall of Egypt's president, Hosni Mubarak, came so cluttered with markers signifying radical change that their deeper implications can be hard to discern. The country's streets have now calmed, with the army in charge of a wobbly interim government. But the smallest happenings in Cairo still reverberate with new meanings, not only for Egypt but for the surrounding region.

One such little scene with big implications played out some 36 hours after Mr Mubarak's exit, when two top generals from the military council now ruling Egypt hosted a chat with some of the youthful campaigners whose organisational genius, to their own surprise as much as anyone's, finally toppled Mr Mubarak on February 11th. In a Facebook post, the visitors described the meeting as encouraging. Not only did the generals, both in their early 60s, affirm the army's commitment to the goals of the revolution, including a swift transition to democracy under civilian rule. They also showed "unprecedented respect for the opinions of young people".

For Egyptians inured to rigid hierarchies of class and age, this last point was telling. Only a week before, as huge demonstrations engulfed the country, Mr Mubarak's short-termed vice-president, the dour ex-head of intelligence, Omar Suleiman, had infuriated young Egyptians by suggesting that the protesters' parents should tell them to go home. His prime minister, Ahmed Shafik, when pressed to apologise for a murderous attack on unarmed protesters by paid pro-Mubarak thugs, promised sarcastically to send the victims chocolates and sweets.

Mr Mubarak himself, playing out his well-worn role as father of the nation in a televised speech, shook his head in sadness at the ingratitude of misguided youth, but swore nevertheless to carry on his burdensome duty of running the country. That show of paternal sorrow was Mr Mubarak's last act as president. His seeming deafness to millions of his people prompted crowds to surge out of Tahrir Square and stomp towards his suburban palace. This in turn pushed his generals to usher the 82-year-old president quietly into retirement, as had happened not long before to his counterpart, Zine el-Abidine Ben Ali, in Tunisia.

The frustration of the vast throngs in Cairo and Tunis was directed not so much at the leaders themselves as at what they stood for: paternalistic, unaccountable authority. This, in essence, is the model of governance that has prevailed across the Middle East, whether in the guise of kings, presidents for life, rustic tribal elders in Yemen, sectarian bosses in bespoke suits in Lebanon or bushy-bearded clerics in Iran. Across the region pulses a similar mood of generational revolt, increasingly impatient to challenge this order.



A wave of political ferment is emboldening dissidents and frightening governments from the Atlantic to the Persian Gulf. In the past week alone serious riots have shaken Algeria, Bahrain, Iran, Libya and Yemen, with slogans and tactics mimicking those in Egypt and Tunisia. Supporters of Iran's Green movement marched again in Tehran, for the first time in a year. Protesters in Bahrain briefly seized a roundabout in the island kingdom's capital, Manama, in true Egyptian style. "The people demand the fall of the regime," they shouted, copying a slogan first heard in Tunisia, before being bloodily dispersed. Facebook dissidents in Libya gathered some 20,000 online followers. Dissent is even stirring under Saudi Arabia's absolute monarchy. Working through the internet, groups of Islamists and liberal nationalists plan to form political parties, hitherto banned.

Governments have responded with varying degrees of alarm. Seeking to nip internet activism in the bud, Syrian authorities on February 14th sentenced a female blogger aged 19 to five years in prison for "espionage". Mahmoud Abbas, president of the rump Palestinian proto-state in the West Bank, last week dissolved his cabinet and promised new elections. King Abdullah of Jordan fired his prime minister, issued a decree permitting street protests and promised other reforms. The government of Iran and its protege in Lebanon, Hizbullah, the Shia party-cum-militia, simply tried to co-opt Tunisia and Egypt's revolutions, saying they were Islamic derivatives of Iran's own 1979 revolution.

But the region's youthful tide reaches beyond politics. Egypt's millions of protesters marched not only in defiance of Mr Mubarak and his brutal police. Many Coptic Christians who joined in also challenged their church's crustily conservative 87-year-old patriarch, who had called on his flock to support the government. During the unrest some senior Muslim clerics had similarly defended the state that pays their wages. They were not just widely ignored, but in some cases shouted down during Friday sermons. Even within the Muslim Brotherhood, Egypt's strongest opposition group, ageing leaders at first resisted calls to back the protests. Only after impatient younger members went ahead, joining secular groups that had launched the demonstrations, did the group's leaders throw their weight into the struggle.

Since the fall of Mr Mubarak, numerous mini-revolutions have taken place across Egypt. Journalists have overthrown their editors, workers their union leaders, professors their university deans. Even the police have returned to the streets, striking to demand the removal of the senior officers they blame for their disgrace.

Songs of defiance

For the rest of the region, the attraction of these revolutions goes beyond the satisfaction of seeing despised dictators hounded from office. During Egypt's long period of stagnation under Mr Mubarak, Cairo, once the undisputed centre of the Arab world, was increasingly eclipsed by such upstarts as Dubai and Beirut. Now, suddenly, the heroic imagery and rousing lyrics of Egypt's revolution permeate Arab airwaves. The pictures show lone youths confronting fearsome ranks of soldiers, and vast crowds in which veiled and unveiled women, Muslims and Christians mingle joyfully. The lyrics in rap songs, catchy ballads and anthems already slickly produced in video clips circulating widely over the internet, speak of heroism, honour and, above all, freedom:

> From every street in my country The sound of freedom calls... We broke all boundaries Our weapon was our dreams.

It is not by chance that the words to this song, "The Sound of Freedom", echo the upbeat message and youthful promise of the 1960s in the West. Like the Western youth of that era, young people across the Middle East have inherited a world of immensely greater possibilities than the one inhabited by their parents. Even in the tribally conservative, religion-saturated cities of Saudi Arabia, drag-racing, daredevil youths take over quiet boulevards on weekend nights. By internet and text, they exchange jokes about ageing royal princes.

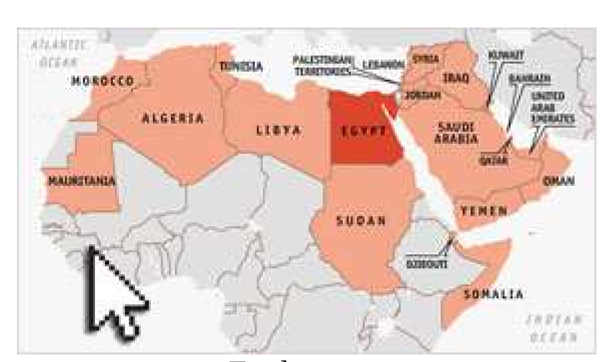
As much as anything, the collapse of the regimes in Egypt and Tunisia was a product of the growing gap between their antiquated world views and the increasingly sophisticated outlook of their people. In Egypt, at every stage, the protesters proved more agile, more resourceful, more imaginative and more determined than what one of them, in a breathless television interview, dismissed as "those stone-age men sitting in chairs". Once they had battled and beaten Egypt's fierce and well-equipped riot police, they found that the government could do little but retreat.

In recent years across the region, older people have increasingly complained about the rudeness and impatience of younger generations. But during the occupation of Tahrir Square, elderly Egyptians watched in amazement as youthful volunteers cheerfully swept streets and gave out donated food. Hussam Bahgat, who runs one of the many human-rights groups that diligently helped stir Egypt's revolutionary fervour, says that during the protests he was often stopped and thanked by older Egyptians, who just wanted to tell any young person how grateful they were. "You have done what we always wanted to do, but never could," they told him.

Walid Rashed, a volunteer with the April 6th movement, a secular youth group that helped organise the Cairo protests, says he could never put his finger on what was missing for his generation of Egyptians, until the triumph of the revolution. The missing element was pride, he says with a broad grin. "We were always looking at photos, but were never in the picture. Now the photo is us."

Such pride is understandable, considering how swiftly the crowds of protesters grew and the revolution proceeded. In truth, however, many factors contributed to the protesters' victory.

At critical moments, the mobilisation by the Muslim Brotherhood of its tightly disciplined membership added immensely to the strength of the movement. So did the many mistakes and misjudgments made by Mr Mubarak's government, the clumsiness and brutality of which crucially alienated Egypt's increasingly independent press. Crucial, too, was the ambivalence of Egypt's army, which was thrust into play when the country's 1.8m-strong police force in effect collapsed.



Explore our

The army's dilemma

With perhaps 100,000 officers and 400,000 conscripts, Egypt's pampered and carefully insulated army found itself both protecting protesters and asking them to disperse. While officers on the ground hinted that they were on the side of the revolutionaries and would refuse to fire on crowds, senior commanders sent conflicting signals, perhaps reflecting divisions at the top between generals loyal to Mr Mubarak and others who realised that his departure was increasingly inevitable.

In the end, Egypt's motley revolutionaries roused numbers huge enough to convince even the most recalcitrant of Mr Mubarak's allies. The army's high command, an 18-man body including the 75-year-old defence minister, Muhammad Tantawi, the chief of staff, Sami Enan, and the commanders of service branches, specialist corps and military regions, suspended the constitution, dissolved Egypt's parliament and assumed control. Pledging to uphold treaties and oversee a swift return to civilian rule, it ordered the rump cabinet left by Mr Mubarak to continue governing until further notice.

So far Egypt's military rulers have earned little but praise, dispelling much of the unease about their intentions. Several of Mr Mubarak's top officials and henchmen have been banned from travel or detained, pending investigations into graft and

brutality. And the army has chosen both a Muslim Brother and a prominent Christian judge to sit on an eight-man legal panel that has been asked to draw up new, fairer rules swiftly for early elections.

Under Mr Mubarak the Brotherhood had been officially banned, despite winning impressive shares of votes, with its members running as independents, in every election it was allowed to contest. Its inclusion in such a prominent panel represents a sea-change. Wary of alarming the many Egyptians, Christians, secularists or unsympathetic fellow Muslims who fear the Brotherhood, its spokesmen say it will neither run a candidate for the next presidency nor seek a parliamentary majority. For now, say its members, they are happy simply to have rid Egypt of Mr Mubarak, and to have embarked on a transition to full democracy.

Such words are soothing; yet many Egyptians still worry that the Brotherhood, by virtue of discipline and experience, would hold an unfair advantage if elections were held too soon. The ruling National Democratic Party of Mr Mubarak, which dominated every elected body but acted essentially as a state patronage machine, has collapsed in disarray. The small opposition parties that it had legalised are largely discredited and have only small local bases. The new forces emerging from the revolution are far from coalescing into anything like political parties. Their youthful leadership lacks political experience, and figureheads such as Mohamed ElBaradei, the former head of the UN nuclear watchdog whose sharp criticisms of Mr Mubarak amplified calls for change, lack street credibility. Most of the businessmen who could play a big part in moulding politics are waiting on the sidelines, unsure which horse to back.

Egyptians are keenly aware that the next phase will be difficult, with the country's strained economy stressed further by weeks of unrest. They also know that the rest of the region will be watching closely, to see if the immense youthful energy of the revolution can be sustained and translated into something productive. So far the region's attempts at democratic transition have mostly proved halting and messy. Both Egypt and Tunisia seem now to be on hopeful trajectories. If they safely reach quieter shores, much of the region may, with luck, follow.

Index | Middle East & Africa

Worried Israel

Encircled by enemies again?

Feb 17th 2011 | *JERUSALEM* | from the print edition

Israelis are jittery about trends in Egypt, the Arab world and even in America



BINYAMIN NETANYAHU, prime minister of Israel's hawkish coalition government, makes no secret of his queasiness about Egypt's upheaval and his fear that the peace treaty with Israel's giant Arab neighbour could unravel after 32 years. The prospect of an Egyptian government that included the Muslim Brotherhood, let alone one that were led by it, plainly gives him the creeps. For one thing, it might open the Egyptian border with Gaza (see article), so strengthening the Brothers' Palestinian offshoot, Hamas, whose charter calls for the Jewish state's destruction. People close to Mr Netanyahu mutter darkly about the "Hamas-isation" of Egypt, a possibility that fills most Israelis, not just on the right, with dread. "Half of the Palestinian people have already been taken over by Iran," says Israel's prime minister, with barely a hint of conscious hyperbole.

The Egyptian upset is heightening a sense of encirclement that has not been felt so acutely by Israelis in decades. In Lebanon to the north, a pro-Western prime minister has recently been displaced by one backed by Hizbullah, the Shia party-cum-militia that is armed and sponsored by Iran. To the north-east, Syria, also on friendly terms with Iran, seems resolute in its support for Hamas. Meanwhile Iran itself, Israel's biggest bugbear in the wider region and governed by a mercurial president fired with righteous anger towards Israel, moves steadily towards getting a nuclear weapon.

Perhaps even more worrying for Israel is a rising fear that on its eastern flank the ruling monarchy in Jordan, the only Arab country bar Egypt that has a formal treaty with the Jewish state, is being shaken by an assortment of Islamists, tribal leaders, Palestinians (who make up a good half of Jordan's people), disgruntled former security men and a middle class irritated by the royal family's perceived extravagance.

In the past year relations with Turkey, once a rare friend of Israel in the Muslim world, have gone from cool to icy. In the words of one of Mr Netanyahu's colleagues, Israel is surrounded by a "poisonous crescent". "We are in the midst of a regional earthquake," says one of his ministers, clearly horrified by its possible reverberations.

Meanwhile, peace talks with the Palestinians have broken down, apparently irretrievably. The chances of their revival during Mr Netanyahu's term in office, which has two years to run, seem negligible. Mr Netanyahu roundly blames the Palestinians for their supposed intransigence, an analysis not shared by American or European mediators and monitors, who castigate Israel's government for refusing to freeze the building or expanding of Jewish settlements in the West Bank, the main bit of a future Palestinian state.

Mr Netanyahu lays particular stress on Israel's claimed need, if a Palestinian state were to emerge on the West Bank, to retain a military presence there; neutral foreign forces, provided by NATO, as suggested in previous negotiations, would not suffice. "What will prevent infiltration through the Jordan Valley?" he asks. "It requires an Israeli presence to prevent a takeover by Iran's proxies." Ministers in Israel's ruling coalition repeatedly raise the possibility that Hamas might one day oust Mr Abbas's milder Palestinian party. Some argue that Mr Abbas's peace talk is a tactical ploy. "A peace treaty

does not itself guarantee peace," warns Mr Netanyahu bleakly. With such suspicions to the fore of his thinking, it is hard to see how a deal based necessarily on mutual trust could ever be struck.

Israel's centrist opposition leader, Tzipi Livni insists that she came close to sealing a peace deal in 2008 with the Palestinians when she was foreign minister in the government replaced by Mr Netanyahu's coalition. She excoriates what she sees as Mr Netanyahu's hawkish ineptitude and his apparent belief that Israel will always be surrounded by an army of enemies infused with a murderous anti-Semitism.

As if Israel's predicament in a region that may soon become more hostile is not bad enough, two more fears are nagging away. Mr Netanyahu and his colleagues are plainly discomfited by what they see as a burgeoning campaign, especially in the West, to erode Israel's legitimacy. They cite what they deem unfair attitudes over such issues as the Turkish flotilla Israel stopped from sailing to Gaza, killing nine Turks in so doing, and the UN's Goldstone report critical of Israel's war in Gaza in 2009. "We are being denied our legitimate right to self-defence," sighs one of them. Israel's growing isolation in forums such as the UN is a gnawing worry. "If we are thrown to the wolves, we have a problem," says a minister.

The West's loyalty is another worry. Few of Mr Netanyahu's people have a good word for Barack Obama. Some already accuse him of "losing" Egypt. Others see the White House as a lost cause, whereas liberal Democrats, including Jewish ones, seem increasingly unfriendly. But at least, in Israel's government view, Congress and the Republicans are holding firm.

A resolution may soon be aired in the UN Security Council condemning Israel's refusal to freeze the West Bank settlements. A year ago America would have been sure to veto it. It will probably do so again. But such acts of support can no longer be guaranteed, filling Israelis with foreboding. In the end, doubts about America, let alone Europe, may be more menacing than Islamist governments in Egypt. Indeed, some mediators think a rougher environment, both in the region and overseas, is the only way that Israel will be pressed towards giving Palestinians a proper state.

Index | Middle East & Africa

Division in Palestine

What shall we do now?

Feb 17th 2011 | *GAZA AND RAMALLAH* | from the print edition

The rulers of the two Palestinian territories offer different answers



Divisions within divisions

ON THE West Bank, the bigger chunk of a would-be Palestinian state, ageing leaders have been pondering how to thwart an eruption by a frustrated people seeking to emulate their Egyptian cousins. Some think they can deflect anger, albeit non-violently, onto Israel. Others have called for elections to all Palestinian governing bodies, including the presidency, the parliament and local councils, within six months. Yet others think the best way forward is to try once again to share power with Hamas, the rival Islamist movement that runs the Gaza Strip. In truth, no one knows what will happen. The most unlikely development is the early resumption of peace talks with Israel.

Most Palestinian leaders acknowledge that things on their home ground have been going wrong. Five years ago they could boast, albeit briefly, that their fledgling state was more democratic than almost anywhere in the Arab world. But today's Palestinian Authority (PA), their ruling body, has become more akin to the security regimes that Tunisians and Egyptians have just sloughed off. Mahmoud Abbas's presidential term has constitutionally expired yet he is still in office; and three years into his job, the prime minister, Salam Fayyad, has yet to be ratified by parliament. On February 14th, partly to pre-empt protests, he and the Palestinians' chief peace negotiator with Israel, Saeb Erekat, resigned. A top Palestinian official admitted that "those who stand in freedom's way will be swept away."

But whether such measures can restore the PA's legitimacy is questionable. Mr Abbas promptly asked Mr Fayyad to form a new government. The PA's president set no date for elections, which have been cancelled before when the results looked likely to be unfavourable. The PA authorities, with bully-boys at the ready, are poised to ban protests. And liberal contenders for power, such as Mustafa Barghouti, may now busy themselves preparing for an election rather than running mass protests in the street.

It is a gamble. Mr Abbas has promised not to stand again for the presidency, and Mr Fayyad may also have had enough, preferring to let others take the blame for his failure to produce an independent Palestinian state by September this year, as Barack Obama and he had promised. Without the two pro-Western Palestinian leaders, the PA might become rudderless.

Moreover, Hamas has dismissed the offer of an election out of hand. And it is loth to accept the PA's terms for a government of national unity, since it would have to accept PA political control of its own military wing-though it says it has accepted another demand, the disavowal of violence. In any event, Hamas has been emboldened by the fall of Hosni Mubarak, Egypt's president and its sworn enemy. It may think the tide is running its way, leaving it to rule Gaza, whatever its rivals on the West Bank think. A frustrated Gazan offers a simpler explanation for Hamas's rejection of elections. "They'd never allow them here. They know they'd lose."

Hamas has scant tolerance for public dissent. To ward off a "dignity uprising" called for on February 11th, it deployed fighters with automatic rifles. Its security men summoned internet users for questioning, trawled through Facebook for addresses, and took their computers.

The Islamist movement may be biding its time. Egypt's American-equipped army, not the Muslim Brotherhood, of which Hamas is a branch, still controls Egypt. Despite the fall of Mr Mubarak, the Egyptians have yet to open their border with Gaza. So Gazans are still penned in, thanks to the joint effort of Egypt and Israel.

Gaza has some of the same features that affected Tunisia and Egypt: poverty, oppressive rule, corruption and the spread of digital media. Hamas ministers invariably reiterate that Gaza's government was democratically elected. But that was more than five years ago. And Hamas's puritanical killjoys continue to make enemies. Its God squads banned Valentine's Day celebrations, looking for heart-shaped balloons and telling waiters to replace their colourful bow-ties with black ones. Even so, quite a few ladies celebrating the event in Gaza's restaurants wore a romantic red.

"I wish our people would hear the hoofbeats of history," says Ahmed Yusuf, a former official of the Hamas government. "Otherwise they will lose." Others say that Hamas is unwise to reject the PA's offer of reconciliation and put its trust in a friendly new regime in Egypt. If Hamas remains isolated, the links between Gaza and the West Bank may become even weaker, dimming hopes of an eventual single Palestinian state.

Since Egypt's upheaval, officials in Ramallah, the PA's headquarters on the West Bank, have been busily telephoning their Hamas counterparts in Gaza, hoping to persuade them to seek national reconciliation or accept elections. Hamas's leadership in Syria has helpfully called for the two main Palestinian factions to form a joint committee to prepare for elections. But few think they are likely to take place on time, if at all. Both Palestinian factions look as divided and power-hungry as ever. And, despite its problems in Gaza, Hamas looks the less unhappy of the two.

Index | Middle East & Africa

Demonstrations in Iran

Bouncing back?

Feb 17th 2011 | from the print edition

The opposition has shown it is still alive; how strongly is less clear



You can't keep me down for ever

THE tens of thousands of supporters of Iran's Green Movement who agitated for democracy in the centre of their capital, Tehran, on February 14th were supposed to have been brought to heel long ago. The leaders of the Islamic Republic have spent the past year celebrating the defeat of a "sedition" that represented, so they claimed, no more than a tiny minority of deluded and treasonous Iranians, egged on by their paymasters in the West. In the words of Ayatollah Ali Khamenei, the country's supreme leader, society had been "vaccinated" against these "germs".

The protesters were answering an invitation from their two main leaders, Mir Hossein Mousavi and Mehdi Karroubi, to march in honour of the freedom-seekers of Egypt and Tunisia. Having put the pair under house arrest, the authorities were apparently caught out. The protesters, indistinguishable from ordinary commuters, were able to gather in large numbers and begin marching, mostly in silence, before the security forces responded.

Their intervention lacked nothing in brutality. Police and members of the *baseej* militia, using truncheons and tear-gas, waded into groups of protesters. Later the authorities made the outlandish claim that the marchers had fired live bullets, killing two members of the security forces. Eyewitnesses said that the police did the firing and that the two victims were protesters. By nightfall, side-streets off the march route recalled the most dramatic scenes of agitation after the disputed presidential election of 2009, with protesters burning rubbish bins and taunting the security forces. Dozens of arrests were reported.

Despite the bloodshed, the Green Movement has had a bounce. Mr Mousavi hailed a "big achievement" in the face of government violence and of those "pessimists" who had written the movement off. In contrast to his wariness in 2009, Barack Obama immediately called on Iran to let people express their opinions.

Democracy-seekers in non-Arab Iran have been inspired by the success of their Arab neighbours. But they are chagrined by close comparisons. Despite protesting for longer and being the heirs to a century-old yearning for representative government, opposition campaigners have achieved less than their counterparts in Egypt and Tunisia, and paid a higher price.

Scores of them lost their lives in the streets and detention centres in the aftermath of President Mahmoud Ahmadinejad's re-election in 2009. Thousands were arrested and tortured in the crackdown, and the political establishment represented by Messrs Khamenei and Ahmadinejad demonised the protesters as Western lackeys. In December 2009 a huge rally of the regime's supporters seemed to cast the movement into the shadows.

Even now it is hard to say which group of Iranians will benefit from events in northern Africa. The country's leaders expect new Arab governments to adopt more of their viscerally anti-Western, anti-Israel policies, which the Green Movement regards with ambivalence. Moreover, pressure from the West, which may have helped speed change in Egypt and Tunisia, is a dead letter in Iran. Hardened by decades of confrontation and isolation, and riveted by ideology, the Islamic Republic is a tougher proposition than the discredited American clients of the Arab world.

This still leaves Iran's destiny mainly in the hands of its internal disputants. Constrained by their own vulnerability, Messrs Karroubi and Mousavi have been unable to project a convincing programme, far less the wide-ranging constitutional changes their supporters seem to want. Indeed, the pair are more vulnerable than at any time since 2009, with hardliners in parliament baying for them to be executed for their role in what the speaker calls a "spurious and deviant movement aligned to American and Zionist goals".

The latest events may turn out to be a new start for the Green Movement or a feeble echo of events far away. The funeral of one of the slain men, a student at Tehran University, was marked by clashes between protesters and loyalist students. The reserves of the Islamic Republic are deep, but the 71-year-old Mr Khamenei must be disquieted by the desire for democracy that is sweeping the region-and by a general disdain for geriatric autocrats.

Index | Middle East & Africa

Bloodshed in Bahrain

A Gulf state that is an odd man out

Feb 17th 2011 | from the print edition

A tiny Sunni kingdom with a Shia majority is feeling a chill Egyptian wind

THE Arab protests at last reached the Gulf on February 14th, when small and scattered demonstrations took place in Shia villages in the Sunni-run kingdom of Bahrain. They soon gained momentum, turning into a rally of thousands in Manama, the capital, before being bloodily dispersed in the early hours of February 17th, leaving at least three people dead. As *The Economist* went to press, the authorities seemed to be back in charge but the situation was dangerously fluid.

Three days earlier, riot police had broken up the first pockets of protest. But their heavy-handed tactics backfired. A young man was killed. The next day, hundreds joined mourners taking his body home. Police attacked them with tear-gas and birdshot. In the melee another young man was shot dead. By the evening the crowd had swelled to tens of thousands, who then occupied a big roundabout near the city centre known as Lulu (Pearl) Square, seeking to copy their Cairo counterparts.

The slogans became angrier. More people converged, putting up tents and a stage with a microphone. Volunteers directed traffic, handed out food and even took care of lost property, copying the Tahrir Square protesters. "No one expected this," said a young enthusiast. "We didn't think such a big central gathering could happen here." People climbed onto the stage with an array of demands, from constitutional reform to outright revolution.

It was too much for the ruling al-Khalifa dynasty, which decided to squash the protesters before they became too numerous. It is a questionable decision. Most opposition leaders, seeing that the royal family is backed by the powerful Saudi monarchy next-door as well as by the Americans, have been careful to say they want a democratic constitutional monarchy, not a revolution. With just over 1m people, half of them expatriates, Bahrain hosts the main American naval base in the Middle East.

But the brutal dispersal of the demonstrators may have changed the political dynamic. Sectarian tension and fear of foreign influence have been growing, long before the Egyptian upheaval. Bahrain's Sunni royal family, ruling a population that is two-thirds Shia, is afraid of Iran's influence. But the protests have not been exclusively Shia. Bahrainis of both sects have inveighed against corruption, inequality and their toothless parliament. But the Shias are the angrier, saying they are generally excluded from the army, the police and the higher ranks of the civil service.

Just a few days before the protest, the king announced a gift of 1,000 Bahraini dinars ($2,660) to every Bahraini family. The authorities had been cracking down on the opposition for several months, jailing 23 prominent dissidents in September. Human-rights people say 300-odd campaigners, most of them Shias, have since been detained. That number will now grow.

There is still a chance of peaceful reform. The day Hosni Mubarak bowed out in Egypt, Bahrain's crown prince told a business gathering in Turkey that his government would push ahead with reform. The king expressed sorrow at the first two deaths. Now he must decide whether to keep on cracking down or to seek compromise. Either way, he is in trouble.

The restive Maghreb

Don't count your dominoes

Feb 17th 2011 | from the print edition

Will other north African countries explode too?

NOT to be left out, protesters in three more countries on the southern shore of the Mediterranean have been on the streets, clamouring for change. The Algerians held a march in Algiers on February 12th. Libyans, who started agitating earlier, called for a "day of rage" on February 17th to mark the anniversary of demonstrations that were savagely put down in 2006. And the Moroccans say they will start on February 20th.

Algeria's protests are the least surprising-and may yet be contained. Violence has erupted periodically in the slums of Algiers and other cities for at least two years. The country is also no stranger to uprisings, and Algerians are understandably fearful of any fresh bout of strife.

The doughty protesters who turned out in Algiers were led by a coalition of political parties and civil-society groups. They called themselves the National Co-ordination for Change and Democracy. The police turned out in their thousands to block the way and arrested some of the organisers, but the protesters say they will hold rallies every Saturday until further notice.

The unrest may be stoking simmering rows within the ruling circle of Algeria's 73-year-old president, Abdel Aziz Bouteflika, who has been at odds with General Muhammad Tewfik Mediene, long the regime's main military man. Mr Bouteflika's announcement on February 3rd that he may soon lift a long-standing emergency law, as well as rumours of a cabinet shuffle, may be meant to dampen the protests as well as to outsmart the general.

Though spared its own civil war, Libya is the Maghreb's most repressive regime. During 41 years in power, Colonel Muammar Qaddafi has been as brutal as he is eccentric. But he shows no sign of losing his nerve or his chutzpah, declaring that he will himself take part in counter-protests on February 17th, with his "revolutionary committees" in control of the streets.

But in the more Islamist east of the country, where unemployment is high, trouble has already begun to boil over. On February 15th thousands of people held a rally in Benghazi, Libya's second city, to protest against the arrest of a well-known human-rights campaigner. The offices of a local revolutionary committee were trashed. At least one protester was killed. An unprecedented spurt of dissent is badly rattling the regime.

In Morocco there is more space for peaceful protest. Even so, as protesters gather, the government is getting twitchy. On February 15th it said it would nearly double its spending on subsidies, to offset the global rise in commodity prices. Few of Morocco's protesters, who include secular leftists and Islamists, want to oust King Muhammad VI, who is generally liked. But they want constitutional reform, more freedom of expression, and an end to the economy's control by the royal court. The king would be wise to heed them.

Index | Middle East & Africa

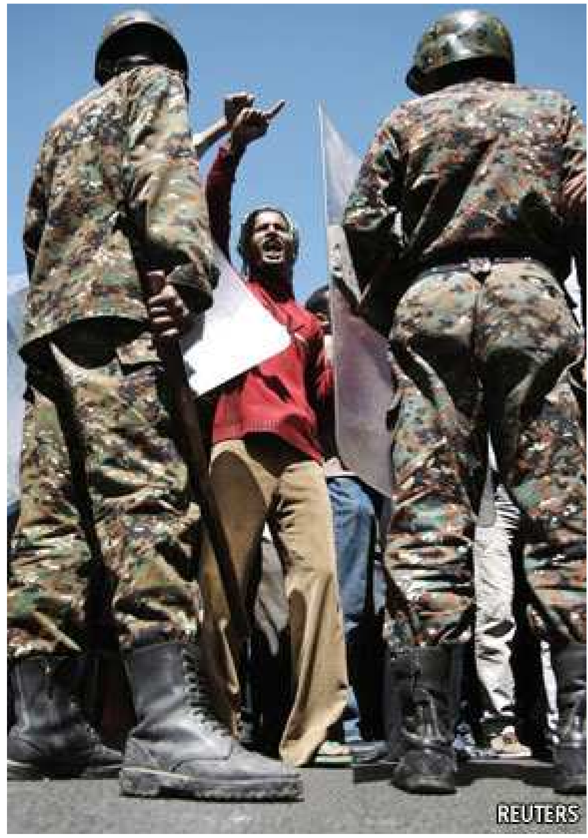
Protests in Yemen

Building up

Feb 17th 2011 | *SANA'A* | from the print edition

The president is not yet on the brink, but nor is he safe

FOR nearly a week thousands of Yemenis have been gathering in Sana'a, their capital, and in several other cities around the country. In Aden, the old capital of the south, two protesters were killed on February 16th. A demonstration the next day in Sana'a was bigger and bloodier than ever, posing still more of a threat to President Ali Abdullah Saleh. The unrest is getting more violent and more widespread.



Standing up for Saleh

When rallies were first held several weeks ago, they were organised by Yemen's official opposition, known as the Joint Meeting Parties (JMP), a hotch-potch of Islamists, socialists and others. But a new wave of protesters, including unemployed young people and frustrated students, are angrier. Whereas the JMP called for political and electoral reform, the latest protesters are chanting, "After Mubarak, Ali's turn!"

The established opposition groups wrung quite big concessions out of Mr Saleh, including a promise to step down in 2013-without passing his baton to a son. The latest lot want an immediate change. The JMP leaders, by contrast, are nervy about an abrupt shift, wary that Yemenis are perhaps the most heavily armed people in the world.

In any event, the security forces have begun to crack down. On February 11th they stood by, as pro-government people beat up opposition demonstrators. Two days later riot police and plainclothes security men broke up a march of a thousand-odd people in Sana'a with clubs and electric batons. Journalists have been attacked; dozens of campaigners have been arrested or injured.

Parts of the country are in open revolt against the corrupt and oppressive regime in Sana'a. A tribal war persists in the north. A secessionist movement is bubbling in the south. Across the country, al-Qaeda cells are trying to topple the government and bring about a Muslim caliphate in the region. Rumours are swirling in the streets of Sana'a that cash is being moved to foreign bank accounts and assets liquidated in case members of the ruling circle need to leave in a hurry.

Mr Saleh has not reached that stage yet. The protests are still far smaller than those in Tunis or Cairo. Moreover, only a third of Yemenis live in towns; few have access to the internet or own mobile telephones. The president is a wily manipulator of the tribal politics that still dominates Yemen. But as the protests spread, he is far from safe.

Index | Europe

Silvio Berlusconi's troubles

Berlusconi v the city of women

Feb 17th 2011 | *ROME* | from the print edition

A judge's decision to commit the prime minister for trial on sex charges will hang over Italian politics for months

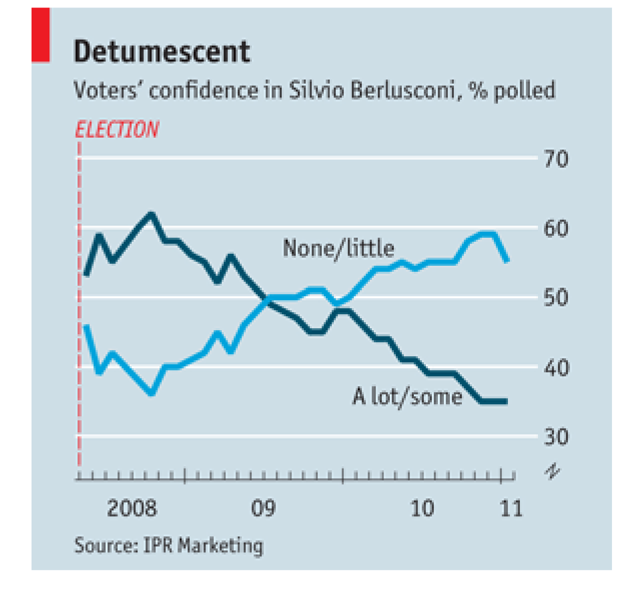


IN WHAT was perhaps his weirdest film, "City of Women", Federico Fellini took cinema-goers into the nightmare of a Latin male who is bewildered by the advent of feminism. In one scene Snaporaz, the hero, is dragged before a court to be judged for his masculinity. With rich irony, the situation of Silvio Berlusconi, Italy's most overtly *maschilista* political leader since Mussolini, is fast coming to resemble that of Fellini's woebegone libertine.

On February 15th a female judge, Cristina Di Censo, sent the prime minister for trial on two charges: paying an underage prostitute and trying to obscure this alleged offence by taking advantage of his official position. The prosecutors co-ordinating the investigation were led by another woman, Ilda Boccassini, who had argued that the obviousness of the evidence against Mr Berlusconi made a pre-trial hearing unnecessary. Ms Di Censo agreed and has now set down the first hearing in Milan on April 6th. By coincidence, all three of the judges, who are chosen automatically from a rota, will be women.

The charges, which Mr Berlusconi denies, were laid against a background of public indignation among Italian women over the affair and its effect on how they are perceived. On February 13th an estimated half a million demonstrators filled squares in Italy and abroad to protest against Mr Berlusconi, his government and, at least implicitly, the extent of gender inequality in Italy. Two recent studies have reached strikingly different conclusions about how Italy compares with other countries. The World Economic Forum's 2010 Global Gender Gap Report put Italy in 74th place, behind Paraguay, Ghana and Kyrgyzstan. Yet the United Nations Gender Inequality Index in 2008 ranked Italy ninth, ahead of both Britain and France.

This second assessment, at least, seems overly sanguine. A Lebanese writer, Joumana Haddad, said this week that on visits to Italy she felt indignant about the way in which she saw women being treated. Only 46% of Italian women have a job, compared with a European Union average of 59%. Mr Berlusconi's equal-opportunities minister is a former topless model. And the use made of women in advertising (notably on channels in the prime minister's Mediaset television network) is demeaning to an extent that would not be tolerated in other EU countries.



The indictment of Mr Berlusconi has dealt him what is perhaps the heaviest blow since he launched his eventful political career back in 1994. It will condition Italy's politics for months to come, not least in the increasingly likely event of there being a snap general election.

The prime minister is no stranger to prosecution, and he will be under no obligation to resign even if he is found guilty. (In the Italian judicial system, a defendant is entitled to as many as two appeals and is not considered to have been convicted until the second appeal has been rejected.) On February 16th Mr Berlusconi said he was "not at all worried" by his indictment. But he must know that his situation is highly dangerous.

In the past he has often got off thanks to Italy's generous provision for "timing out" legal proceedings before they can be concluded. That is unlikely to happen this time. There is no statute of limitation for juvenile-prostitution offences, and the lack of a pre-trial hearing should ensure that the entire process is completed before the prosecution runs out of time on the second charge. Another factor is the weight of the evidence. The girl he is alleged to have paid is a Moroccan runaway-turned-dancer, Karima el-Mahroug, who also goes under the pseudonym "Ruby Heartstealer". According to *La Repubblica*, a newspaper, the prosecutors have a statement in which she claims she told the 74-year-old Mr Berlusconi she was under the age of 18, the legal minimum age for prostitution in Italy. He is alleged subsequently to have provided her with a rent-free flat and perhaps cash, too. The paper also said that prosecutors have mobile-phone records showing that the girl was a frequent visitor to Berlusconi's house outside Milan, staying on one occasion for at least two nights (though she denies having had sex with him).

The prime minister must now choose from three options. He could make an uncharacteristic admission of guilt and plea bargain. He could choose a fast-track, closed-door trial that would entitle him to a one-third reduction of his sentence if convicted. Or he could go for a full trial.

In the third case, it is highly likely that his lawyers will seek to challenge the validity of his indictment in the constitutional court. The grounds for this were laid by Mr Berlusconi's followers in parliament on February 3rd, when they passed a motion declaring that the prosecutors have no jurisdiction over the case, because they should have referred it to a special court for trying government ministers.



Browse an

Such an appeal could buy Mr Berlusconi the time he needs. He remains in power largely thanks to the Northern League, his coalition partner. But that party's support, both in parliament and at the next election, will depend on whether Mr Berlusconi can secure the passage of a League-sponsored federalism bill aimed at ensuring that more tax money stays where it is raised. The League's leader, Umberto Bossi, said cryptically that if Mr Berlusconi had the votes in parliament

he would be happy to back the government; but if not, "it will fall by itself". Yet there are signs that he might be positioning himself to give the coalition the fatal push: this week, unusually, his party's daily newspaper carried an interview with the leader of the opposition Democratic Party, Pierluigi Bersani, who said that he, too, would be happy to give the Northern League the "fiscal federalism" it seeks.

Some of Mr Bossi's voters are deeply uncomfortable about the accusations levelled at a man who is being kept in office by their elected representatives. Many are also sceptical of the claim made by Mr Berlusconi's loyalists that the judiciary is mounting a coup against the executive. It remains to be seen how they will react to the squalid reality of the trial, especially if Mr Berlusconi appears in person.

Recent Italian prime ministers have presented the world with some extraordinary spectacles. Giulio Andreotti was put in the dock for collaborating with the Mafia; Bettino Craxi fled the country to avoid being jailed for corruption. But there has never been anything quite like this.

Index | Europe

The Khodorkovsky case

Another verdict

Feb 17th 2011 | *MOSCOW* | from the print edition

A judicial assistant casts doubt on the judge's verdict. Russians ask why



Vasilyeva's moment on stage

JUST when the curtain had almost fallen on the second show-trial of Mikhail Khodorkovsky, a former tycoon who is Russia's most celebrated political prisoner, an extra has emerged with explosive effect. Natalia Vasilyeva, an assistant to Judge Viktor Danilkin, who found Mr Khodorkovsky guilty, has said the judge's verdict was imposed on him from above after the first draft was rejected.

Throughout the trial Mr Danilkin had to consult the higher-ranking Moscow City Court, said Ms Vasilyeva, who also works as a press secretary in Mr Danilkin's court. "The verdict was brought from the Moscow City Court, I know it for sure," she said. The end, including the sentencing of Mr Khodorkovsky to 14 years in jail, was brought to Mr Danilkin after he began reading the verdict, Ms Vasilyeva added in her taped interview.

Mr Danilkin promptly rejected his assistant's statement. But human-rights activists and members of a civic council patronised by Dmitry Medvedev, Russia's president, have called for an investigation. And Ms Vasilyeva has complained of intimidation.

The content of her statement did not surprise those who watched the trial. As she put it, "everyone in the judicial community understands perfectly that this is a rigged case, a fixed trial." Mr Khodorkovsky's defence team claimed to have evidence that Mr Danilkin was acting under pressure. In a democracy all this would have led to investigations and perhaps resignations. In Russia the main intrigue is why Ms Vasilyeva, who got her legal qualifications only in 2009 after working as a cook (among other jobs), chose to spill the beans.

An obvious explanation-that she acted of her own volition because she was disillusioned with the system-seemed too implausible for the conspiracy-laden world of Russian politics. Most observers agreed that the 16-minute interview must be part of some larger game. One theory is that it was part of a rebellion by judges against Olga Yegorova, head of the Moscow City Court, who oversaw the first trial of Mr Khodorkovsky. She is a notorious figure in the Russian judicial system, who has been accused of putting pressure on district judges. Mr Khodorkovsky's verdict will take effect only after an appeal is heard by the Moscow City Court.

Another theory is that it could help Mr Medvedev to find a politically acceptable solution to the Khodorkovsky case. At the Davos World Economic Forum, he stressed that the sentence had not yet come into force and admitted that his own "high-ranking colleagues" had discussed the case with him. Earlier this month he agreed that a group of independent legal experts should review it.

On February 15th Vyacheslav Lebedev, chairman of Russia's Supreme Court, suggested reviving an old Soviet practice under which a maximum sentence for a person charged with different crimes should not exceed the sentence attached to the most serious charge: in Mr Khodorkovsky's case, nine years. Since he has been in jail since October 2003, this would mean releasing him in October 2012-a few months after the next presidential election.

Whatever Ms Vasilyeva's motive, the response to her confession says something about Russia. Vladimir Putin, the prime minister, who pre-empted the verdict by calling Mr Khodorkovsky a thief who belonged in jail, thought Russians would swallow it. But the second Khodorkovsky trial has proved less digestible than he had hoped.

Index | Europe

Turkey's election

A Muslim democracy in action

Feb 17th 2011 | *ANKARA* | from the print edition

Popular uprisings in the Arab world are drawing new attention to the example of Turkey's democracy



Erdogan, hero of the Arab street

"VOTE for AK. Write Your Own Constitution." This is the slogan under which Turkey's ruling Justice and Development (AK) party will launch its campaign for the general election that is to be held on June 12th. On one level, the outcome seems predictable. Opinion polls have consistently suggested that the mild Islamists who came to power in 2002 will bag a third term of single-party rule, with over 40% of the vote.

Rather less predictable is whether AK can win enough seats in the grand assembly (it needs 367 of a total 550) to approve a new constitution on its own. But Recep Tayyip Erdogan, the prime minister, insists that the new document will be based on consensus and that it will give Turkey a full-blooded, Western-style democracy. Can he be taken at his word?

In his eight years in power, Mr Erdogan has done more than any of his secular predecessors to move Turkey closer to its coveted goal of full membership of the European Union. Reforms that he rammed through during AK's first term in office persuaded the EU to open membership negotiations with Turkey in 2005.

Mr Erdogan has also faced down coup threats from the country's meddlesome generals. He and his party narrowly survived a closure case launched by Turkey's militantly secular judges in 2008. He has since steadily trimmed the powers of both the army and the judiciary, most recently in a constitutional-reform package that was put to a popular referendum last September. Some 58% of voters approved the reforms, in what was widely seen as a test of Mr Erdogan's popularity.

Turkey's economy has survived the global financial crisis relatively unscathed. It is expected to grow by 5% this year, putting it only just behind China and India. Unemployment is down and the budget has begun the year with a surplus. Violence in the mainly Kurdish south-east has almost stopped; some say this reflects a tacit government deal with the imprisoned leader of the Kurdistan Workers' Party (PKK), Abdullah Ocalan.

On the Arab street, Mr Erdogan's salvoes against Israel over the Palestinians have made him a hero. Turkey's high-profile diplomacy, its successful economy and its drive for new markets have made it the envy of many Arab leaders. It is little wonder that so many pundits have taken to talking up a "Turkish model" as a way forward for Egypt. It is also no surprise that Mr Erdogan is brimming with confidence.

Yet critics claim that Mr Erdogan's confidence has curdled into the sort of authoritarianism that, if left unchecked, might transform Turkey into another Russia. Such claims are surely overwrought: Turkish elections are free and fair, and the press is largely unfettered. Yet there is also no question that Mr Erdogan is getting bossier and less tolerant by the day.

In particular, pressure on the media is mounting. Having tamed Turkey's largest media conglomerate, Dogan, with massive fines for alleged tax fraud, the government is now taking aim at other dissident voices. The latest victim is Oda tv, an internet news portal with a pro-army tilt. This week its founder, Soner Yalcin, was detained along with three fellow hacks for alleged involvement with the so-called Ergenekon gang of generals and like-minded coup-mongers, who are standing trial on charges of seeking to overthrow the government.

Much of Mr Yalcin's reporting purported to expose inconsistencies in the prosecution's case. His detention came only days after the issue of arrest warrants for some 163 officers (30 of them serving generals) accused of conspiring against AK in a second case. Western diplomats agree that some of the evidence against them looks flimsy, and in some instances may even have been fabricated.

Turkey's new chief of the general staff, Isik Kosaner, has hardly uttered a peep. This has prompted howls of protest from the main opposition secular Republican People's Party (CHP). "It turns out that they were a paper tiger and we thought they were an army," complains Suheyl Batum, a leading CHP man. AK has seized on his outburst as further proof that, despite a change in leadership, the CHP remains a mouthpiece for the generals.

In fact the CHP's new head, Kemal Kilicdaroglu, has struck a refreshingly liberal note. He insists that the army must be accountable to civilians, and has accused the generals of cutting secret deals with Mr Erdogan. Yet this mild-mannered former bureaucrat does not appear to pose much of a threat to AK. Opinion polls show the CHP lagging well behind, with only 25-30% of Turks saying they would vote for the party.

Erdogan v Gul?

Should AK win a big enough majority in June, the new constitution may contain provisions to shift from the present parliamentary system to a presidential one. Mr Erdogan has made no secret of his ambition to replace the incumbent, Abdullah Gul. Yet nobody, Mr Gul included, knows when his term will end. This is because the constitutional changes that allowed him to become president in 2007, despite fierce opposition from the army, also mandated that the new president should be elected by the people and not by parliament; and for a five-year, once-renewable term, instead of the current once-only term of seven years. The Supreme Electoral Board is expected to decide soon whether these new rules apply to Mr Gul or not-in other words, whether he can stay as president until 2014 or only until 2012.

The dream scenario for AK's enemies is that Mr Gul and Mr Erdogan clash over the presidency, leading to a split in the party. Yet this looks unlikely. Their nightmare is that the far-right Nationalist Action Party (MHP) fails to win the minimum 10% of the vote needed to secure seats in parliament, handing AK a huge majority. That is starting to seem more likely thanks to the uninspiring performance of the tired MHP leader, Devlet Bahceli. An escalation in PKK violence might give him a boost. Would the Kurdish rebels give him this? Not if Mr Erdogan comes up with a better offer for them.

Index | Europe

Charlemagne

The unstoppable flow

Feb 17th 2011 | from the print edition

In Greece and now Italy, illegal immigration is straining the European Union



THE little red-tiled complex outside the Greek village of Filakio is not much to look at. But stand next to the fence and arms start to wave through the bars. "I am hungry!" shouts one voice. "No toilet!" adds another. They cry out their nationalities-Algerians, Moroccans, Iranians. The bellowing turns political. "*Ce n'est pas la Grece, c'est Guantanamo*!" claims one man. Another screams: "German, Hitler, Nazi! German dog!"

The policemen hardly resemble vicious camp-guards. They do not try to stop a stranger speaking to detainees being held for illegally crossing the border from Turkey. But last month the European Court of Human Rights ruled that conditions at Greek immigrant detention centres are so squalid as to breach the ban on "torture or inhuman or degrading treatment". Even before the ruling, several countries had stopped sending asylum-seekers back to Greece under "Dublin II", a convention ruling that applications must be heard in the first country of entry.

This humiliation is of Greece's own making, but it also reflects the pressure of numbers. In recent years Greece has become the main illegal migration-route into the EU. Its border controls have been lax and its asylum-processing system slow and questionable (the approval rate for asylum applications is tiny compared with other EU countries). Hundreds of thousands of foreigners are adrift in a semi-legal limbo, sleeping rough in Athens or in ports from which they hope to get to Italy. Greek xenophobes are beating up immigrants. Traditionally a country of emigrants, Greece is unready for a mass influx.

Like a river seeking the easiest path to the sea, immigration that once flowed to Spain and Italy now courses to Greece. People first crossed to Greek islands; now they prefer the border marked by the Evros river. Nearby is the Turkish city of Edirne, the former Adrianople. Here in 1922 Ernest Hemingway recorded the flight of Greeks across the Evros during the population swap with Turkey: "twenty miles of carts drawn by cows, bullocks and muddy-flanked water buffalo, with exhausted, staggering men, women and children, blankets over their heads, walking blindly along in the rain beside their worldly goods." Greek cavalry, he wrote, moved them on "like cow-punchers driving steers".

These days the staggerers include Afghans, Iranians, Pakistanis, Somalis, Congolese and Eritreans. And the cow-punchers are human traffickers, pushing them into the river on flimsy dinghies or across fields of sunflower and garlic. About 50 have drowned in the Evros; ten more have died in the cold. This is one of the most militarised frontiers in Europe. Yet at its most vulnerable stretch, a land section cutting across a bend in the river, slipping into Greece takes no more than a stroll through farmers' fields. Greece wants to build a fence there.

About 47,000 crossed the border last year. "They do not have any documents," says Colonel Georgios Salamagkas, police chief in the town of Orestiada. "All the white people say they are from Palestine. All the Africans say they are from Somalia. They know we cannot send them back to those countries." Most immigrants are trying to pass through Greece to reach richer countries. They avoid Turkey's border with Bulgaria, but that would change if it were let into the EU's Schengen passport-free zone.

Greece's crisis is Europe's problem. Frontex, the EU border agency, has deployed a rapid-response team-including border guards, dog-handlers and interpreters-to help. The flow has reduced, partly because the Turks are co-operating. But no sooner has one gap tightened than another is reopening on the Mediterranean. Some 5,000 immigrants, mostly young men, have arrived on the Italian island of Lampedusa. Italy stroppily accuses the EU of doing too little. Political oppression

may push people to flee, but the end of dictatorship in Tunisia has also lifted an obstacle. Events on Lampedusa must alarm all EU countries about the popular revolts across the Middle East.

A double tragedy in Greece

Two big European projects, the euro and Schengen, are under severe strain in Greece. To work, they require mutual trust. But this has been eroded, first by broken public finances and now by broken border controls. Greece says harsh spending cuts make its immigration and asylum system harder to fix.

As with the sovereign-debt crisis, countries facing an immigration emergency need help from the EU, in exchange for deep reforms. EU countries need to align their asylum policies more closely so as to bridge the big disparities between them. Some means of sharing the resettlement of refugees makes sense. Southern countries want the option, in times of stress, to halt the return of asylum-seekers to their first country of entry. Northerners fear this might encourage southerners to export their problem. A painful compromise might be tried: if Greece wants to suspend Dublin II, it should accept a temporary suspension of Schengen and the return of border controls.

Part of the answer lies in co-operating with Europe's neighbours, helping a free Tunisia to re-establish border controls, say. Greece is under pressure because Turkey allows visa-free entry for some of its neighbours. Turkey also maintains the "geographical limitation" in the 1951 convention on refugees, restricting asylum to Europeans only. If Turkey wants more influence in both the EU and the Middle East, it should end this legal anomaly.

An effective asylum regime must be part of a more sensible immigration policy, not least because an ageing Europe will in future need more foreign workers. But refugees should not be confused with economic migrants. As long as there is war and oppression, there must be sanctuary. Greece's prime minister, George Papandreou, should know this more than most: under the Greek colonels, his family was given asylum in Sweden.

Economist.com/blogs/charlemagne

Index | Britain

Inflation and interest rates

Mervyn's dilemma

Feb 17th 2011 | from the print edition

Inflation rising to 4%; interest rates stuck at 0.5%: something has to give



FOR many years the job of the Bank of England's monetary-policy committee (MPC) seemed straightforward. The knocks that from time to time pushed the economy off its path of steady growth tended to shove inflation downward, too. A weaker economy meant interest-rate cuts; recoveries prompted rate rises. The bank's rate-setters knew it might not always be so easy-that in some instances, output and inflation might be pulled in opposite directions. But they might never have envisaged a policy dilemma quite as acute as the one they now face.

Figures released on February 15th showed that Britain's inflation rate reached 4% in January, twice the bank's official 2% target. Inflation is likely to rise further in the coming months, to 4.5% or even higher, according to the bank's quarterly *Inflation Report*, published a day later. The report seemed to endorse the widespread expectation that interest rates will go up as soon as May, and continue climbing: the bank reckons inflation is as likely to be below as above 2% in the medium term-based on the financial market's forecast of a gradual rise in the benchmark interest rate to 3% by the end of 2013.

Mervyn King, the bank's governor, said the report should not automatically be read as a manifesto for a swift rate increase. The timing and speed of policy changes will not be set by market expectations but by how the MPC sees the balance of risks, he said. The fear of enduringly high inflation has to be set against the danger that it falls too far if the economy stays weak.

And the deep blue sea

Hence the bank's dilemma. Much of today's inflation stems from temporary influences beyond its control: a surge in energy and food prices, increases in VAT, a consumption tax and the delayed effects of a weaker pound. These are likely to fade-unless firms and employees start to factor high inflation into their price- and wage-setting. An increase in interest rates might lower the chances of that spiral. But it might also unduly harm the economy, which is still fragile, and, in April, faces tax increases and sharp public-spending cuts.



What makes the bank's problem especially acute is that, in recent years, inflation has spent more time above 2% than below it, testing faith in the bank's ability to meet the target (see chart). Some think it unseemly to keep interest rates at 0.5% when inflation is at such relatively heady levels, and believe there is a case for one or two "symbolic" quarter-point rate increases to show the bank is serious about curbing it. A modest tightening might do little harm: the benchmark rate is too low to have much influence on the higher charges levied on business loans and mortgages.

The idea that a rate rise will make little difference, but is necessary all the same, was scorned by Mr King. Better to explain carefully why high inflation is likely to prove temporary than to indulge in "futile gestures", he said. Some of his colleagues on the MPC see things differently. Two of the nine-strong committee voted for a rate increase in January. In the letter that Mr King was obliged to write to George Osborne, the chancellor of the exchequer, to explain why inflation was still above target, he noted the "real differences of view" on the committee. That seemed to hint that the number of dissenting votes had increased at this month's MPC meeting.

The trouble with the bank acting tough to shore up its reputation is that the Treasury is engaged in a similar exercise. Mr Osborne believes that Britain's reputation for fiscal prudence depends on cutting public spending aggressively. His hope was that the bank could insure against the perils of his fiscal tightening by keeping monetary policy very loose, or even loosening it further. There is now some fear of a "credibility race" between the central bank and the Treasury, resulting in an economic policy vice that strangles the recovery.

Certainly another round of "quantitative easing"-using central-bank money to buy government bonds-now looks improbable. And even if a rate rise in May is uncertain, the recent poor run of inflation data makes an increase this year seem likely. If that happens, Britain would scarcely be the first biggish, rich country to raise interest rates since the global financial crisis: Australia and Canada have already done so. Sweden's central bank raised its benchmark interest rate to 1.5% on February 15th, and said further increases were likely.

Yet these countries have far stronger economies than Britain's, and none faces as daunting a task in fixing its public finances. Canada and Australia have strong banks and are benefiting from the commodity boom. Sweden's export-based economy has bounced back even more impressively than Germany's.

The challenges facing the rich world's central banks have increased as a result of the financial crisis (see article). But Britain's has the least room for error in its main job of keeping inflation stable. Tighten too soon or too much, and the recovery is in jeopardy. Tighten too late and inflation might take off. Mr King once aspired to making central banking boring; John Maynard Keynes hoped economists might become humble technicians, like dentists. For Mr King, drilling teeth may now seem a more appealing career.

Index | Britain

Student visas

It ain't broke

Feb 17th 2011 | from the print edition

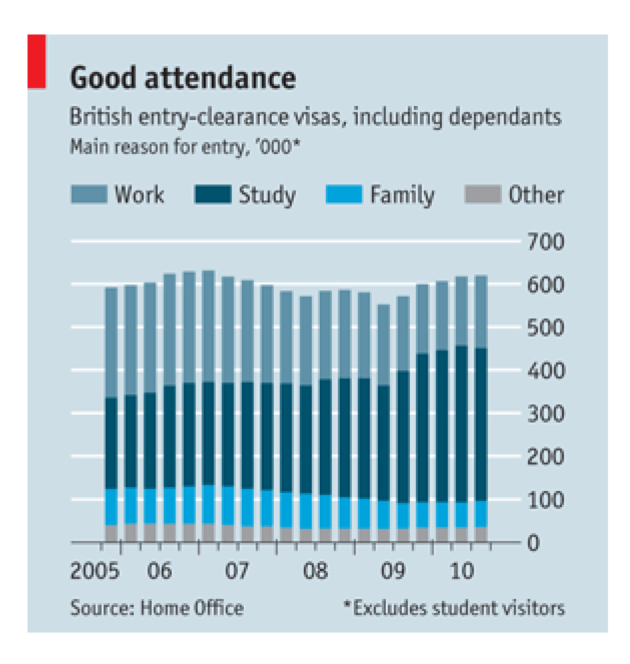
Plans to discourage foreign students threaten a successful British business



Thanks for the memories

TWO countries, keen rivals in the increasingly competitive market for international students, announced reviews of their visa systems in December. Australia, which has seen applications from foreign students fall since it began tightening the rules to combat immigration fraud in 2008, is thinking of relaxing them again to boost numbers. Britain, which has also been cracking down on abuse, wants to tighten its system further. At a time when university funding is being squeezed and exports are expected to power the shaky economic recovery, this approach has its critics.

Britain has recently experienced the largest wave of immigration in its history. This contributed to a long stretch of economic growth, but has also provoked unease about jobs, wages, public services and terrorism. Before last year's general election the Conservatives made a pledge to cut annual net immigration, currently around 200,000, to the "tens of thousands" by the end of this parliament; now in government (with the Liberal Democrats), they are trying to meet it. The trouble is that many immigrants are either Britons returning from abroad or other European citizens who can't be kept out.



Thus in November the coalition government announced a permanent and controversial cut in the number of non-Europeans coming in to work (a fifth of the total in 2009); this week it revealed that those earning more than pound150,000 ($240,000) would be exempted from the new limit. Students are a far bigger target, accounting for well over half of non-European migrants, and their numbers have been rising (see chart). It isn't surprising that they are in the government's sights too.

Yet students contribute some pound10 billion a year to Britain's economy, guesses Dominic Scott, chief executive of the UK Council for International Student Affairs, a pressure group. Higher education alone is the country's seventh-biggest export, reckons Steve Smith, of Universities UK, another lobby. Foreign university students subsidise domestic ones, who pay lower fees, and keep labs open: they do the lion's share of postgraduate scientific research. And many schools are thriving and creating jobs thanks to foreign students.

All the same, there are worries that student visas are used as an easy way into Britain's labour market. Some immigrants sign up at bogus colleges that provide little or no education; some students never leave. An attempt by the UK Borders Agency (UKBA) to quantify visa fraud found much flouting of the rules at private further-education colleges in particular (and, to a lesser extent, at language schools). Damian Green, the immigration minister, thunders against people who ostensibly study in London while working in Wales.

But the government, desperate to redeem a misguided promise, seems to be reaching for a hatchet instead of a scalpel. Though firm proposals are not expected until March, the broad outlines of the likely changes are clear. Only "highly trusted" schools and colleges will be allowed to offer foreigners courses below university level. Applicants might have to show a better grasp of English than in the past. Those who want to go on from one course to another might have to go home to apply for another visa. And the prized right to stay and work for two years after completing a degree is likely to be reduced or removed.

Nervous colleges protest that the previous government had already made the system tougher-by, for instance, raising the English-language requirement for visa applicants. The register of outfits entitled to recruit foreign students had been whittled down from more than 12,000 to around 2,200 UKBA-approved establishments by March 2009; since then 60 more have been struck off and 68 are currently suspended. Over a quarter of institutions have agreed to stricter reporting standards in order to become "highly trusted sponsors".

Immigration rules aren't the only factor affecting students' choice of country: Australia might have suffered as much from its strong currency and some well-publicised xenophobic incidents as from a harsher visa regime. Britain has the English language and an enviable reputation for quality. But visa rules matter: many schools reported a decline in Japanese business after the last tightening of the language requirement. The British Council, a cultural body, says there is concern in China, in particular, over the coming shake-up.

Internship The Britain section will soon be choosing an intern to work for several months this summer. Applicants should send a letter and an article of about 600 words that they think would be suitable for publication. A small stipend will be paid. Applications must reach britainintern@economist.com by March 19th.

Index | Britain

R&D in Scotland

Green rush

Feb 17th 2011 | *GLASGOW* | from the print edition

The renewable-energy industry is heading for Glasgow



MAKING all the towers, turbines and other kit needed for an anticipated boom in wind, wave and tidal electricity has become one of the big hopes for British manufacturing. Rundown ports on the east coast are wooing foreign engineering firms in the hope of becoming suppliers to the burgeoning offshore renewable industry in the North Sea. Unlikely as it might seem, the biggest long-term winner from this green rush might be Glasgow.

The excitement in coastal parts is understandable. A recent study for RenewableUK, a trade body, reckoned that between 2007-08 and 2009-10, jobs in wind-farm construction nearly doubled, to 9,200. Last month Siemens, a German conglomerate, announced plans to spend pound80m ($130m) on a wind-turbine factory in Hull, a dingy city in Yorkshire, creating 700 jobs directly and 500 more in related businesses. Carl Minns, the local council leader, hailed a "new era of prosperity".

Like other forms of manufacturing, however, this one is cyclical: turbine-makers were badly hit by the recent global downturn. Glasgow's slice of the action might prove more durable. In 2009 Scottish and Southern Energy (SSE), a utility, founded a renewable-energy research centre in the city; last year Mitsubishi, a giant Japanese firm that is rapidly building a big renewable-energy manufacturing capacity in Europe, decided to join SSE in funding the centre, which will employ 400 people. Iberdrola, the Spanish owner of ScottishPower (another utility), and one of the world's biggest generators of renewable energy, has placed its global offshore-wind headquarters in Glasgow. Gamesa, a Spanish turbine-maker, is to set up its own research facility there.

Why the rush to a post-industrial city on the other side of Scotland from the renewable action on the east coast? ScottishPower and SSE have helped, by cultivating skills in the sector and drawing in contractors, such as Gamesa. The biggest asset, however, is Strathclyde University.

The university's electrical-engineering department is probably Britain's best. Four utilities fund research in its Institute for Energy and Environment which, with 210 staff, claims to be Europe's largest such outfit, equipped to take new technology from design to operation. This pre-eminence is in large part the work of Jim McDonald, formerly the department's head and now the university's vice-chancellor.

Mr McDonald spent eight years in the power industry before entering academia. He is adamant that universities should be as concerned with practical as theoretical innovation and has championed collaboration with manufacturers such as Rolls-Royce. He wants Strathclyde to be the world's top energy-research hub. He is set to announce pound112m in extra research funding, some 40% of it from industry. Glasgow has seen some rough times, he says, but it "has always been an engineering city and it will be even more so in the future."

Green theatre

Cue rain, gales, apocalypse (maybe)

Feb 17th 2011 | from the print edition

Climate change arrives on the London stage

THE frisson of Armageddon is again running through the stalls: London is awash with plays about climate change. At the National Theatre, "Greenland" gives audiences a stern warning against inaction on global warming. Meanwhile, at the Royal Court, "The Heretic" sketches the countervailing dangers of groupthink for an academic who disagrees with climate-change orthodoxy. "Earthquakes in London", which prophesies climate-doom in the city, was a hit at the National last year; more environmental dramas are coming to smaller theatres soon.

Art has tackled man-made threats to the planet since the Old Testament. During the cold war, theatre learned to love the bomb and its moral complexities, in plays such as Sir Tom Stoppard's "Hapgood" and Michael Frayn's "Copenhagen". Climate change has already established itself as a dystopic heir to nuclear war in cinema, in films such as "The Day After Tomorrow". Dramatists seem to have been inhibited by the subject's technical density. But now it has reached the London stage.

Some critics have complained that "Greenland" is hysterically alarmist. Matt Charman, one of its writers, argues that "Not engaging with the subject would be the real failure for a national theatre." Throughout the evening, theatre-goers are lashed with rain made of paper (recycled), while characters discuss climate-change "denial" and rebuke the audience for its un-green habits.



The heretical Ms Stevenson

"The Heretic" is a rival to "Greenland" intellectually as well as politically. It opened on February 10th, starring Juliet Stevenson (pictured) as a professor doubtful about climate change, which puts her on the wrong side of received opinion in her department, earning the enmity of her ethically flexible boss and colleagues. A script full of digs at green complacency has delighted climate-change sceptics, who often complain that their case is denied a proper hearing.

Richard Bean, who wrote the play, has a record of controversy: his drama about racism, "England People Very Nice", was denounced by some for reinforcing stereotypes rather than challenging them. Now he has courted another fierce argument. He says "The Heretic" is "meant to show how government and the mainstream media have adopted an unproven hypothesis of anthropogenic global warming, as if it were undisputed." The backlash was predictably swift: Fred Pearce, an environmental campaigner and author, damned the play as a "boorish and confected conspiracy tale".

It turns out that theatre can make drama out of climate change. But it seems to generate more heat than light.

Stalking

Hunter and hunted

Feb 17th 2011 | from the print edition

A tricky, nasty crime might finally be properly tackled

ALEXIS BOWATER of the Network for Surviving Stalking, a charity, describes stalking as "the hunter and the hunted. You live your life knowing that attack is imminent and inevitable, but not knowing when, or where." As a victim of it herself, she should know. Stalking seems to be becoming more common; but now the criminal-justice system, which has been slow to respond, might be about to catch up.

The law in England and Wales doesn't recognise stalking as an offence, so measuring it is tricky. Prosecutions are generally brought using the Harassment Act (under which around 5,000 stalkers were convicted last year), and the Malicious Communications Act (under which 700 people were tried, mostly for cyber-stalking). Stalkers are also charged with assault, rape and murder. But prosecutors and police think it is on the rise, as modern technologies present more opportunities for harassment. Nazir Afzal, of the Crown Prosecution Service, says the number of prosecutions represents "the tip of the iceberg". The British Crime Survey (BCS) estimates that over a million people are victims each year in England and Wales.

If stalkers' numbers are hard to measure, there is broad agreement among criminologists and psychiatrists about what they do. Most harass someone they know; 39% of perpetrators are former partners of their victims, according to the latest BCS. Most victims are women; most offenders are male. The three main motives for stalking are love, hate and predation. It commonly involves nasty e-mails, texts or post, unwanted phone calls, damage to property, loitering and following. Some stalkers threaten extreme violence, which a smaller number carry out. Many have mental disorders, often undiagnosed.

The lack of a clear legal definition helps to explain why the police have struggled to address the problem. To begin with, offenders are typically given warnings. But stalkers are rarely deterred. Restraining orders come next, but lots of those are breached: nearly 1,500 in 2009, three times as many as a decade ago. Stalkers, like sex offenders, are recidivists. Unlike sex offenders, in Britain very few are currently treated for their condition, a failing that can lead to tragedy.

Research in America, where the phenomenon has been studied more intensively, suggests that almost 80% of women who are murdered by former partners are stalked first ("murder in slow motion", as the sequence has been called). Even in less extreme cases, the psychological harm can be immense. Victims are often forced to change their routines or move house. Three-quarters report disturbance to their sleep, according to an Australian survey. A fifth contemplate suicide.

Inspired in part by a case in her constituency, Theresa May, the home secretary, is expected to announce changes to the way stalking is handled soon. One likely reform is the introduction of mandatory assessment and management of dangerous stalkers, using the model of the Fixated Threat Assessment Centre (FTAC). The FTAC was set up by the police and NHS in 2006, to assess the risk posed by stalkers who harass the royal family and politicians. Dr David James, a psychiatrist who leads it, says it has prevented reoffending.

For its part, the Crown Prosecution Service has toughened up its guidance on prosecuting stalkers. But Mr Afzal agrees that punishment alone isn't enough: "We have got to recognise that stalking often does not stop at conviction."

Gay unions

I thee bless

New plans to blur the line between civil partnerships and marriage



BRITAIN took a small step this week towards eroding the legal distinction between gays and straights in the matter of matrimony. The civil partnerships that came into force in 2005 grant same-sex couples essentially the same legal rights (over property, pensions, inheritance and parenting) as opposite-sex marrieds; but the law stipulates that the ceremonies must be secular. Last year, after fierce opposition, Parliament voted to remove the prohibition on civil partners tying the knot in churches, synagogues and other religious settings. On February 17th the government said it would begin consultations on implementing that decision-with a view to changing the regulations this year.

More important is the formal promise given by the equalities minister, Lynne Featherstone, to go beyond the letter of last year's law and look for ways to remove the wider inequality between gays and straights. This mostly boils down to redefining marriage in law so that same-sex couples may contract it. But there is also a small but robust cohort of heterosexual couples-uneasy about entering what they see as the patriarchal state of marriage, or unwilling to embrace it if their gay friends cannot-who want the right to form civil partnerships, currently reserved for same-sex pairs. On February 2nd eight couples-four straight and denied the right to register a civil partnership, and four gay, denied the right to marry-filed suit in the European Court of Human Rights against the government, alleging discrimination on the basis of sexual orientation.

Seventeen countries, provinces and states permit gay marriage, including such cutting-edge places as Portugal and Belgium, says Robert Wintemute, a lawyer at Kings College London who is representing the litigants. Eleven allow civil partnerships for straight couples. Three have both: the Netherlands, South Africa and the Canadian province of Quebec. A mainstream Christian denomination in Canada has been marrying gays for years. Nowhere has society been shaken to its foundations.

Britain, too, has become far more tolerant of, or indifferent to, the issue of gay marriage, as various opinion polls attest. But the matter remains sensitive for two coalitions in particular.

The first is the Church of England, whose ranks include entrenched modernisers and traditionalists, already mobilised by rows over women and gay bishops. The church is fighting a desperate battle to retain a semblance of unity. The government was careful this week to emphasise that faiths will not be forced to host civil partnerships (Quakers, Unitarians and Liberal Jews have said they would like to). Equality campaigners pooh-pooh the idea that permission to hold civil-partnership registrations could ever become an obligation to do so. But some fear it.

The other coalition for which gay marriage is tricky is the Conservative/Liberal Democrat one that rules the country. The coalition backs the plans for religious premises, ministers say. But though many Tories, especially those at the top, are socially liberal, for a large number heterosexual marriage is the basic building block of society. The Lib Dems, by contrast, were the first big party to endorse gay marriage, in September. It is the Lib Dem equalities minister, Ms Featherstone, who is mooting the idea of broader reform-not her Tory boss, the home secretary Theresa May.

Index | Britain

The politics of the AV referendum

Pandora's ballot box

Feb 17th 2011 | from the print edition

Reform of the voting system is causing more than just constitutional upheaval

IT IS a measure of the government's hyperactive radicalism that a referendum proposing the biggest change to the electoral system since female suffrage has, until now, seemed a recondite side story. Increasingly, however, the planned plebiscite on whether the alternative vote (AV) should replace the first-past-the-post system currently used for the House of Commons is becoming a compelling political, and not just constitutional, issue.

That is partly because the government had an unexpectedly tough time getting the House of Lords to pass the legislation for the referendum. Many peers argued that the date of the vote (May 5th) was too soon, and were worried about the changes to parliamentary constituencies that were included in the same bill (see Bagehot). These critics include many, especially on the Labour benches, who actually support AV-a system that allows voters to rank parliamentary candidates, and counts second and subsequent preferences until one candidate passes the 50% mark.

During the wrangle in the second chamber, peers supported an amendment requiring the referendum to attract a 40% turnout in order for its result to stand automatically (without being referred to Parliament for ultimate approval). The bill was only just passed, minus the turnout requirement and other hostile amendments, by February 17th, which for logistical reasons was the deadline if the referendum is to take place on May 5th.

The political import of AV goes much further than the Lords. As with so many other issues, AV is forcing David Cameron, the Conservative prime minister, to choose between pleasing his own party and placating his Liberal Democrat coalition partners. Many Tories, who are opposed to AV, want to exploit the unpopularity of Nick Clegg, the Lib Dem deputy prime minister who champions voting reform. They think voters are likelier to reject AV if told that it will mean more seats for the Lib Dems, and more king-making power after elections for third-party leaders such as Mr Clegg, whose reputation has been hurt by his various policy compromises since allying with the Tories.

But Mr Cameron cannot attack his deputy without jeopardising the coalition. The Tory party's official anti-AV campaign material makes no mention of the Lib Dems, and the prime minister is thought to have leant on the independent "No to AV" campaign to lay off them, too. Opponents of voting reform, however, can't afford the luxury of deploying only their most decorous arguments: one recent poll gave the pro-AV campaign a lead of ten points.

Were AV to be approved by voters, Mr Cameron would be in serious trouble with his own side. Many Tories already harbour grievances against him: for his allegedly aloof, cliquey leadership style; for failing to win the last general election outright; for conceding too much to the Lib Dems (including, during last May's coalition negotiations, the promise of the AV referendum). If he is seen to have hamstrung the anti-AV campaign, he will find it hard to command the support of his backbenchers.

Then there is the question of how Mr Clegg's party will react to the referendum result. Senior Lib Dems assume that a "yes" to AV would help the coalition, as their party would have something to show its supporters for its role in government. But many Tories worry that Lib Dems who dislike the coalition might push for an exit once they have secured the prize of AV. This fear probably exaggerates their options: given their dismal poll ratings, the Lib Dems have

no interest in provoking a general election any time soon. For once it is Mr Cameron, not Mr Clegg, who has the bigger headache.

Very local government

The little society

Feb 17th 2011 | from the print edition

London might be about to embrace a rural way of governing



Coming to a metropolis near you

FOR most Londoners, parish councils exist only in the fictional villages of Dibley or Ambridge, the settings of television and radio shows depicting the sleepy lives of rural folk, where council business rarely extends beyond organising the annual village fete. That might be about to change.

Tourists are often encouraged to experience "village London", a term that reflects the variety of mini-centres dotted throughout the capital. The city's governance structure, however, bears little relation to these localities: the lowest tier of government in London is its 32 borough councils, serving an average population of around 250,000. But activists are hoping to set up new representative bodies at a much more local level.

Ordinarily covering populations of only several thousand, parish councils started to take over the municipal tasks that had traditionally been performed by churches-hence the religious terminology-in the 19th century. Despite the fete-organising stereotype, in villages and some towns and cities they are responsible for more serious matters, such as public toilets, playing fields, road humps and youth clubs. Their members are elected and they can charge a "precept" that is added to the borough council tax.

Until 2008, the law prevented Londoners from being represented in this way. But under new rules introduced by the previous Labour government, parish (or community) councils can be set up in the city with the support of 10% of local electors and the approval of the relevant borough (which has few legal grounds to deny the request). The race is on to be first to establish one. Queen's Park, an up-and-coming part of north-west London, has gathered the most signatures; London Fields, in Hackney, is next.

On the face of it, David Cameron should be pleased. This local activism seems to accord with his embattled notion of the "Big Society", a plan to devolve more power to local communities and make the state less overbearing, which he defended this week from its many doubters. In truth, the push to create urban parish councils suggests a trend he might be less keen on.

The Queen's Park campaign was prompted by the woes of the Queen's Park Forum, a community group that, like many others, is threatened by cuts to its state funding. The thinking is that creating a parish council, able to raise money through taxation, will help to save the project in a statutory guise. In London's villages, willing society is seeking the protective shelter of little government.

Bagehot

All Wight now

Feb 17th 2011 | from the print edition

An island's fight to keep its MP points to trouble for the government



IN THE summer of 1488 some 440 men from the Isle of Wight-a small island off England's south coast-decided to declare war on France. Conceived by an ambitious local overlord, the plan went awry. Legend has it that a lone survivor straggled home, accusing the islanders' allies-a bunch of rebel Bretons-of abandoning them in battle near Rennes. A memorial plaque to this fiasco, hailing the gallantry of those involved, hangs in Carisbrooke Castle, just below the room where local bigwigs locked Charles I after the civil war. (The king was on the run, and peeved islanders with further escape attempts, one of which left him wedged in his bedroom window.) When it comes to defying higher authority, in short, the Isle of Wight has form.

Now the island has done it again. On February 15th the government was forced to drop plans to split the Isle of Wight into one and a half parliamentary seats. The half-seat was to be joined to a chunk of the English mainland, creating a constituency divided by several miles of sea. Victory honours go to Lord Fowler, a former Conservative Party chairman and longtime island resident. Fully 196 peers, among them seven former Tory cabinet ministers, backed his House of Lords amendment that makes the Isle of Wight an exception to a government plan to redraw almost all British constituencies to fit a quota of 76,000 voters, with only small variations allowed. The Isle of Wight constituency (Britain's biggest) currently boasts 110,000 electors.

Desperate to pass a wider package of electoral changes by a self-imposed deadline of February 17th, the Conservative and Liberal Democrat coalition blinked, adding the Isle of Wight to a list of only two other exceptions, both of them sparsely populated Scottish seats. Unexpectedly, the government also said it would chop the island into two constituencies of 55,000 or so voters apiece (a local, cross-party campaign to preserve the island's electoral integrity had offered to stick with just one MP, even though this would leave islanders under-represented). Cynics note this generosity suits the coalition, as the Isle of Wight is Tory territory with Lib Dem pockets.

Political scientists talk of a tension between the "mathematical" model, in which an MP represents a set of people, and an "organic" model, in which members represent communities. The Isle of Wight knows where it stands. "They are an island people, this is their bit of the country," explains Lord Fowler. Andrew Turner, the sitting Conservative MP, talks of "a feeling of us-ness". In Newport, the largest town, islanders say a mainland MP could never understand their home: a handsome backwater of green hills, chalk cliffs, beaches and yacht harbours, where the state is the largest employer. The islanders have duly defended an organic vision of politics, but-looking at the national picture-theirs is a lonely victory.

Not gerrymandering, but...

Governments have been fiddling with constituencies since 1832, when reformers swept away "rotten" boroughs with handfuls of voters, and enfranchised new industrial cities. Each time, their motives have blended principle and partisan calculation. The latest plans follow that tradition: coalition leaders point to disparities in the size of today's seats-with the average Welsh seat, for example, boasting 56,500 voters, compared with 72,000 in England-and thunder about "the broken scales of our democracy". In private, Tories gloat that the process may take perhaps 20 seats off Labour-and all in the name of fairness. There is nothing new about that, either: most constituency redistributions in modern times have been perilous for Labour, thanks to long-term population movements away from the party's inner-city strongholds to more Tory-friendly suburbs.

But this time is also different. By insisting that almost all seats contain almost exactly the same number of voters, the government has made it impossible for constituencies to remain neatly inside county boundaries, as most do today (London is an outlier, with seats spreading across borough lines). Talk of a seat straddling Cornwall and Devon already has campaigners in the south-west incensed. Many more county borders (and rows) will follow. David Cameron and his coalition wax romantic about the pent-up power of organic, living communities. But in their plans for Westminster's constituencies they look more like coldly rational Roundheads, sweeping aside ancient boundaries to create a parliament of pure, mathematical equality.

The mathematical camp does have a point. Its hero is Edmund Burke, the philosopher and MP who (rather bravely) informed his 18th-century constituents that he was not an agent for their narrow interests, but merely their elected representative in a national, deliberative assembly. And some Isle of Wight voters can sound pretty parochial. An MP shared with the mainland would "never be here," says a woman shivering at a bus stop in the rain, "and if they did come, it would be at the convenience of the ferries." Another talks of the island's unique "needs", mostly involving public cash.

But the government's radical approach involves dangers. First, says one thoughtful Tory, most of his colleagues have yet to wake up to how sitting MPs will have to fight each other as safe seats shift or vanish (the House of Commons is set to shrink from 650 to 600 seats). A "disaster", he mutters. More importantly, Britain has largely escaped the curse of outright gerrymandering: parliamentary boundaries are drawn by neutral civil servants, even if partisan appeals by party officials are common. The coalition's plans still leave civil servants in charge. But by ignoring the historic boundaries of lots of tight-knit communities, they will further fray the ties between electors and the elected. With trust in short supply, it is an odd time to start alienating voters.

Index | Britain

Internship

Feb 17th 2011 | from the print edition

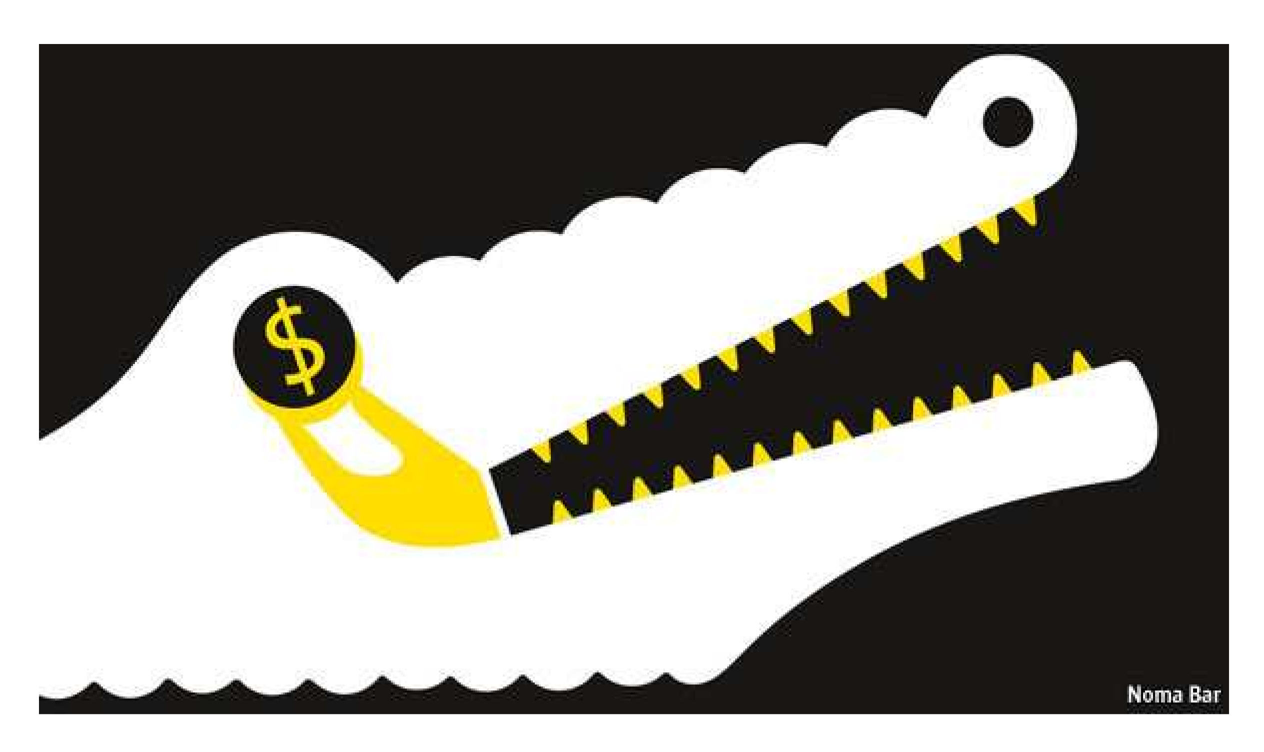
The Britain section will soon be choosing an intern to work for several months this summer. Applicants should send a letter and an article of about 600 words that they think would be suitable for publication. A small stipend will be paid. Applications must reach britainintern@economist.com by March 19th.

Aid and corruption

Cleaning up

Feb 17th 2011 | *NEW YORK* | from the print edition

Can the Global Fund to fight Aids, Tuberculosis and Malaria restore its reputation as the best and cleanest in the aid business?



BEING attacked on Fox News was probably the worst, but all the past month has been horrid for the Global Fund to fight Aids, Tuberculosis and Malaria, backed by $20 billion and one of the world's biggest do-gooding outfits. Set up in 2002, it is used to appreciative coverage of its efforts to stamp out three of the deadliest diseases.

The unexpected woes started with an Associated Press story entitled "Fraud plagues global health fund" on January 23rd. It claimed that up to two-thirds of some grants went astray, with "astonishing" corruption in some cases. It cited faked invoices, phoney training events and other abuses, chiefly involving health ministries in some African countries. For Fund insiders, that was nothing new: evidence of the misuse of $34m paid out in Mali, Mauritania, Djibouti and Zambia became public knowledge in October.

The fund's staff argued that the source was their own investigations (albeit of a small chunk of the billions it has distributed). Perhaps self-servingly, the fund's fans argued that a tiny loss to corruption counted almost as a success given the problems that beset other aid efforts.

In retrospect, that looks complacent. Some donors issued cross statements. Germany, Spain, Sweden and the European Union said they would freeze payments into the Global Fund pending their own inquiries. Germany had promised $272m each year in 2011-13; Sweden had yet to make a pledge for that period, but was expected to do so. Spain has paid less than it pledged. Cynics wonder if the furore now gives politicians in Madrid a useful excuse.

Other politicians may indeed use the scandal to justify cutting back on commitments, not just to the Global Fund but to aid in general. Most rich-country budgets are under huge strain, and poor people in foreign countries are not votewinners.

An important test will be what the British government decides to do. At the World Economic Forum in Davos last year, the then leader of the opposition, David Cameron, made a surprise appearance at a dinner to discuss malaria and said that as prime minister he would keep to the target of giving 0.7% of Britain's GDP in aid. He also praised the Global Fund as one of the best users of aid money. His government has kept that promise, even as it has cut public spending at home. So far, at least.

Nor is it just rich-world taxpayers' money that is at stake. The Global Fund was designed as a model for a new approach to development, dubbed in that world's opaque lexicon as "multi-stakeholder". This means that as well as government grants, the Fund relies on gifts from other sources. One is wealthy philanthropists (the Bill & Melinda Gates Foundation, one of the largest donors, says it will continue to give the Global Fund its full support). Another is from businesses. A third is from the public, including an idea called Product (RED) created by Bono, a rock-star activist at Davos, an event much favoured by the Fund's glitzy backers. (RED) is a brand attached to products and services from firms such as Apple, Gap and Starbucks; part of the revenues go to the Global Fund's work on HIV/Aids. The $160m raised so far by this scheme is not touched by the scandal.

Credit and credibility

Mystification has belatedly given way to action. "The Global Fund has zero tolerance for corruption," insisted Michel Kazatchkine, its executive director, as he announced tougher controls and monitoring. He highlights the kind of spending at risk of going astray. "In three of the four cases, the corruption took place in budgets for training, through travel expenses, hotels, per diems."

All of the money distributed by the Global Fund is handed over to national governments, so the Global Fund is to spend more money on local controls. It is doubling the budget of the independent inspector-general. A panel of international experts will review procedures. In December Mr Kazatchkine had ordered a freeze on training in all of the 140 countries to which the Global Fund sends money. This is now being melted one country at a time. Whether these new procedures will cost more to administer than the money lost in the corruption scandal remains to be seen, as is their effects on the fund's operations, which were hitherto relatively speedy and unbureaucratic.

Yet with luck the changes will reassure the critics and start the money flowing again. The Global Fund sits on a big pile of credibility after more than meeting expectations in previous years. Sceptics may quibble with its claim to have saved at least 7m lives, and exactly how many more millions of lives it has improved, but mortality rates in the diseases it targets have dropped sharply. The fund's approach to allocating aid wins plaudits too: it makes countries compete for money based less on their needs than on their ability to get things done. That has brought a switch from laggards to leaders of some $1.1 billion of the $13 billion so far paid out.

Until the latest storm broke, the aid world was abuzz with talk about expanding the fund's remit to include maternal and child health. It would be odd if that plan stalls as a result of the corruption worries and if the money went instead to other international agencies. These tend to be less efficient and more prone to fraud. Though they may also be less likely to claim corruption as a sign of probity.

Index | International

The ICC and Africa

Dim prospects

Feb 17th 2011 | *KAMPALA* | from the print edition

The International Criminal Court loses credibility and co-operation in Africa



Agonising injustice in Kenya, still unpunished

EVEN fans of the International Criminal Court (ICC) in The Hague admit that its proceedings are interminable and expensive. But the court is the world's backstop for prosecuting genocide, war crimes and other enormities. Some of the ICC's troubles are longstanding. Big countries such as China, India and Russia have not signed up to its founding statute. America has not ratified it (though it is co-operating quietly).

But some troubles are new. One comes from a WikiLeaks cable on Britain's view of the ICC's highest-profile indictment, of Sudan's president Omar al-Bashir for genocide. Britain has publicly backed the indictment, which followed a mandate from the UN Security Council. But the cable suggests Britain regards it as "unhelpful"-a damning word in the mouth of a mandarin. At best, it seems, Britain sees it as a chip to be exchanged for setting south Sudan free and making peace in Darfur. That may be clever diplomacy, but it does nothing for the ICC's credibility to be seen as a pawn in a foreign power's chess game.

More troubles loom for the court's active cases, all of them in Africa. The most recent, presented by the former UN secretary-general, Kofi Annan, is over the murderous chaos that followed Kenya's 2007 general election. The ICC's Argentine prosecutor, Luis Moreno-Ocampo, says over 1,100 people were killed and 600,000 displaced. He wants to bring six senior Kenyans to The Hague. They include the country's top civil servant, its finance minister and its ex-head of police.

A year ago Kenya seemed eager to help. The prime minister, Rail Odinga, said in April that he would send anyone whom the ICC sought to The Hague. But a large chunk of Kenya's elite thinks differently. In December the parliament in Nairobi called for withdrawal from the Rome statute which governs the ICC. The vice-president, Kalonzo Musyoka, himself a lawyer, toured Africa to seek support for a year's deferral, to allow time to set up a domestic tribunal that would, by law, kick the ICC off the case. But a recent opinion poll found that 73% of Kenyans still want the ICC involved. They regard their government's stance as laughable: the ICC took up the case precisely because of two years of inaction and empty promises.

The court is disliked by many African governments-and not just the rogues' gallery of Ethiopia, Libya and Zimbabwe. Mr Musyoka went to Uganda to back President Yoweri Museveni's election campaign; in return the Ugandan leader promised to back a deferral of the Kenyan cases. Mr Musyoka also claims backing from Nigeria, South Africa and Gabon, which sit on the UN Security Council (but have no veto and thus cannot influence a deferral). The African Union, never a friend of the ICC, said Mr Moreno-Ocampo was egotistical and prejudiced against Africa.

That adds to his other troubles. The case against Thomas Lubanga, a Congolese militia commander, which was mishandled from the start, looks wobbly. A former Congolese vice-president, Jean-Pierre Bemba, is on trial in The Hague over atrocities in the Central African Republic. But nobody from Congo's equally trigger-happy pro-government forces is in the dock. The ICC's effort to try Joseph Kony and other bosses of Uganda's murderous Lord's Resistance Army has stalled. Mr Kony remains a fugitive. His deputy, Vincent Otti, is dead, apparently killed at Mr Kony's house.

And the mishaps continue. This week in The Hague, judges in the Kenyan case upbraided Mr Moreno-Ocampo for releasing the names of the suspects before the court had ruled that they could be tried. Not all the ICC's failings can be blamed on him. But some of the criticism sticks.

Mr Moreno-Ocampo finishes his nine-year term next year. The new prosecutor, possibly an African, will be in a tricky position. The ICC badly needs the Kenyan case to succeed, not least to stiffen Japanese and German willingness to continue contributing the largest share of its $100m-plus budget. Missteps and dithering are indeed damaging. But excess zeal can prove awfully costly too.

Hollywood goes global

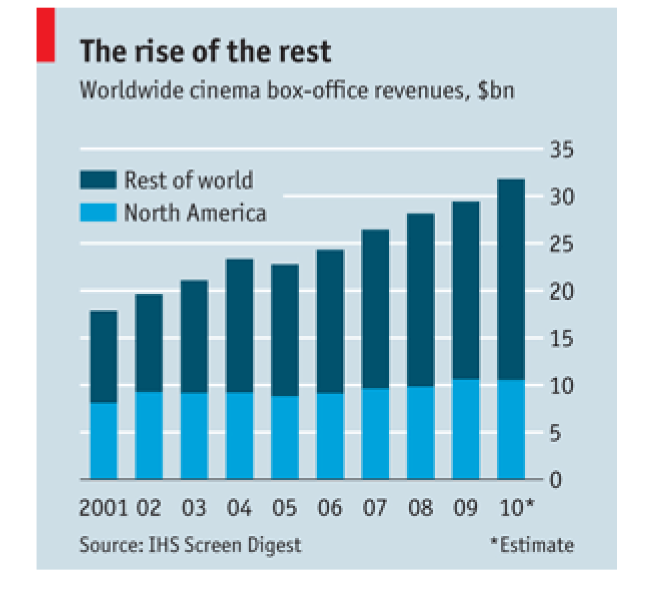
Bigger abroad

Feb 17th 2011 | *LOS ANGELES* | from the print edition

Forget the Oscars. Films need foreign viewers, not American prizes



THE film-awards season, which reaches its tearful climax with the Oscars next week, has long been only loosely related to the film business. Hollywood is dedicated to the art of funnelling teenagers past popcorn stands, not art itself. But this year's awards are less relevant than ever. The true worth of a film is no longer decided by the crowd that assembles in the Kodak Theatre-or, indeed, by any American. It is decided by youngsters in countries such as Russia, China and Brazil.



Hollywood has always been an international business, but it is becoming dramatically more so. In the past decade total box-office spending has risen by about one-third in North America while more than doubling elsewhere (see chart). Thanks to Harry Potter, Sherlock Holmes and "Inception", Warner Bros made $2.93 billion outside North America last year, smashing the studio's previous record of $2.24 billion. Falling DVD sales in America, by far the world's biggest home-entertainment market, mean Hollywood is even more dependent on foreign punters.

The rising foreign tide has lifted films that were virtually written off in America, such as "Prince of Persia" and "The Chronicles of Narnia: the Voyage of the Dawn Treader". Despite starring the popular Jack Black (pictured), "Gulliver's Travels" had a disappointing run in North America, taking $42m at the box office so far. But strong turnout in Russia and South Korea helped it reach almost $150m in sales elsewhere. As a result, it should turn a profit, says John Davis, the film's producer.

The growth of the international box office is partly a result of the dollar's weakness. It was also helped by "Avatar", an eco-fantasy that made a startling $2 billion outside North America. But three things are particularly important: a cinema boom in the emerging world, a concerted effort by the major studios to make films that might play well outside America and a global marketing push to make sure they do.

Russia, with its shrinking teenage population, is an unlikely spot for a box-office boom. Yet cinema-building is proceeding apace, and supply has created demand. Last year 160m cinema tickets were sold in Russia-the first time in recent years that sales have exceeded the country's population. Ticket prices have risen, in part because the new cinemas are superior, with digital projectors that can show 3D films.

The big Hollywood studios are muscling domestic film-makers aside. In 2007 American films made almost twice as much at the Russian box office as domestic films-8.3 billion roubles ($325m) compared with 4.5 billion. Last year the imported stuff made some 16.4 billion roubles: more than five times as much as the home-grown product, estimates Movie Research, a Moscow outfit. Earlier this month Vladimir Putin, Russia's prime minister, said the government would spend less money supporting Russian film-makers and more on expanding the number of screens.

Growth is much quicker in China, where box-office receipts reached $1.5 billion last year. China's regulator has claimed that cinema screens are going up at a rate of three per day; some are IMAX screens that command higher ticket prices. The government allows only 20 non-Chinese films into the market each year, virtually guaranteeing big audiences for those that make the cut. Punters and censors alike warm to family films and movies that seem to reflect China's central place in the world. Thus, expect long queues for "Kung Fu Panda 2" this summer.

Unfortunately, Hollywood has learned (as have many other industries) that great sales in China do not always translate into great profits. In America distributors tend to receive 50-55% of box-office receipts, with the rest going to the cinemas. Elsewhere the average take is 40-45%. In China, where Hollywood must use a domestic distributor, the proportion is roughly 15%. American films may be yanked in favour of domestic ones ("Avatar" had to make way for "Confucius" last year). The World Trade Organisation has ordered China to reform, but few moguls expect it to.

Growing fears of piracy have led studios to release films almost simultaneously in many countries; increasingly, the premiere takes place outside America. That changes the marketing game, says Michael Lynton, head of Sony Pictures. Studios used to rely on rumours of American success seeping out of the country, priming audiences elsewhere to see a film. Now they must conduct co-ordinated global campaigns. These are more expensive and tougher on the talent. Stars

are corralled for two-week-long marketing blitzes that may take them to ten countries-"like a political campaign", says Mr Lynton. Actors who are willing to do this (such as the indefatigable Mr Black) may find themselves working more regularly.

The success of a film outside America is not purely a marketing matter. As foreign box-office sales have become more important, the people who manage international distribution have become more influential, weighing in on "green-light" decisions about which films are made. The studios are careful to seed films with actors, locations and, occasionally, languages that are well-known in target countries. Sony cites the foreign success of "The Green Hornet" (Taiwanese hero, Austrian-German villain) and "Resident Evil: Afterlife" (Japanese location) as evidence of that strategy.

Big noisy spectacle travels best. Jason Statham, the close-cropped star of many a mindlessly violent film, is a particular Russian favourite. Films based on well-known literature (including cartoon books) and myths may also fare well. Films that trade on contemporary American cultural references are about as popular abroad as an oil slick on a NASCAR track. (Note to our non-American readers: NASCAR is an American sport involving fast cars.) Comedy travels badly, too: Will Ferrell and Adam Sandler provoke guffaws at home but incomprehension abroad. As the market swings away from America, funny films are less likely to find financing or broad distribution anywhere. "You won't see us doing a lot of comedies," says Brad Grey, head of Paramount Pictures.

The growing internationalisation of the film business suits the biggest outfits, and not just because they can afford explosions. The major studios' power lies not so much in their ability to make good films-plenty of smaller operations can do that-but in their ability to wring every possible drop of revenue from a film. With their superior global marketing machines and their ability to anticipate foreign tastes, they are increasingly dominating the market. For everyone else, there is a chance to win a gold statue.

Index | Business

Environmental litigation

Monster or victim?

Feb 17th 2011 | *QUITO AND NEW YORK* | from the print edition

---

A court in Ecuador controversially fines Chevron a whopping $9 billion



After careful thought, Daryl Hannah blames the nasty American oil firm

CHEVRON is a "multinational monster", says Ecuador's populist president, Rafael Correa. Various celebrities agree (see picture). And at first glance, it does look like the story of a nasty big American corporation polluting a poor country and then refusing to pay for the damage. But the case is in fact rather more complicated than that.

On February 14th a court in Ecuador walloped Chevron, an oil giant based in California, with a $9.47 billion fine. If upheld, this will be the highest-ever damages award in an environmental case, according to Pablo Fajardo, a lawyer for the plaintiffs. If Chevron does not apologise within 15 days, the fine may be hiked to an incredible $17.2 billion.

Yet Chevron shows no sign of contrition. On the contrary, it is fiercely contesting the verdict and hopes to persuade courts in New York and The Hague that it is the innocent victim of an attempted shakedown based on a spectacular fraud by the plaintiffs' lawyers and members of the Ecuadorean judiciary.

More surprisingly, the plaintiffs, a collection of Amazonian tribespeople and settlers, are not satisfied either. They argue that compensation should have been based on a staggering $27.3 billion estimate of damages by a court-appointed expert whom the judge chose to disregard.

The dispute involves an arc of rainforest territory where oil has been pumped in large volumes since the 1970s. The inhabitants complain of above-average cancer rates and the dumping of 15.8 billion gallons of toxic waste-water into the streams and rivers that continue to supply most of them with drinking water.

Chevron acknowledges that Texaco, an oil firm it bought (along with the lawsuit) in 2001, did pollute the water. But it says that all liability ended after Texaco signed a remediation agreement with the Ecuadorean government and did its share of the necessary clean-up. Texaco left Ecuador in the early 1990s. But the Ecuadorean judge, Nicolas Zambrano, ruled that the company's agreement with the government did not free it from eventual responsibilities towards third parties.

Chevron contends that the remaining pollution is wholly the fault of Petroecuador, an oil firm owned by the Ecuadorean government. Chevron also claims that the plaintiffs' lawyers have colluded with court officials in calculating absurdly high damages in the hope of forcing the oil firm to settle. They deny wrongdoing.

Chevron has brought a case in New York against the plaintiffs' lawyers, alleging fraud and attempted extortion. It has been encouraged by a ruling last May by a New York court that resulted in the release of out-takes from "Crude", a documentary attacking Chevron, that seem to show inappropriate interactions between the plaintiffs' lawyers and court officials.

Chevron no longer has any assets in Ecuador. So to collect any damages at all-let alone the huge sums they demand-the plaintiffs would have to persuade authorities in other countries to enforce the Ecuadorean ruling. On February 9th the Permanent Court of Arbitration at The Hague issued an injunction temporarily blocking any such move, the day after a court in New York made a similar ruling. Chevron argues calmly that it is not a monster but the victim of a monstrous injustice.

China's luxury boom

The Middle Blingdom

Feb 17th 2011 | *HONG KONG* | from the print edition

Sales of costly trifles are even better than you think

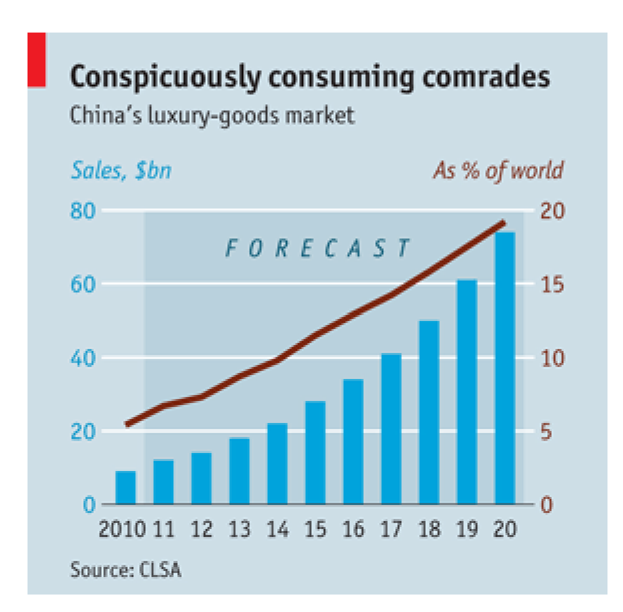


A tasteful golden despot statuette

MANY Chinese people still remember the days when luxury meant a short queue for the toilet at the end of the street, or a bus conductor who wasn't excessively rude. Before the economy opened up, a chic suit meant one with the label of a state-owned factory sewn ostentatiously on the sleeve. How times change.

Sales of luxury goods are exploding, despite a hefty tax on importing them. A new report by CLSA, a broker, forecasts that overall consumption in China (including boring everyday items) will rise by 11% annually over the next five years. That is very fast. But sales of luxury goods will grow more than twice as quickly, reckons CLSA: by 25% a year. No other category comes close. Even spending on education, a Chinese obsession, is projected to grow by "only" 16% annually.

China is already the largest market for Louis Vuitton, a maker of surprisingly expensive handbags, accounting for 15% of its global sales. Within three years, reckons Aaron Fischer, the report's author, China's domestic market for bling will be bigger than Japan's. By 2020 it will account for 19% of global demand for luxuries (see chart). And that is only half the story.



For the most ostentatious Chinese consumers like to shop abroad. CLSA estimates that 55% of the luxury goods bought by Chinese people are bought outside mainland China. This is partly because of those high tariffs, which can top 30%. But it is also because counterfeiting is rife. Ask a well-heeled Chinese lady about her new handbag and she is quite likely to point out that she bought it in Paris. This tells you not only that she is rich enough to travel, but also that the bag is genuine.

If you include the baubles Chinese people buy outside China, the nation's share of the global luxury market will triple, to 44%, by 2020, predicts CLSA. The wealth of China's upper-middle class has reached an inflection point, reckons Mr Fischer. They have everything they need. Now they want a load of stuff they don't need, too.

In Hong Kong's Tsim Sha Tsui shopping district, queues of bling-hungry mainlanders stretch into the streets outside stores carrying the best-known brands. Sales of jewellery in Hong Kong rose by 29% in the year to December; sales of high-end footwear and clothing shot up by 31%. Companies that cater to show-offs have much to boast about. Richemont, the world's biggest jeweller, registered a 57% increase in Asian sales in the fourth quarter. Strip out Japan, the region's sputtering ex-star, and sales probably doubled. Hermes, a maker of fancy accessories, saw its sales in Asia climb by 45%. Burberry China was up by 30%; LVMH Asia soared by 30% outside Japan. Luxury sales in December were "spectacular", says Mr Fischer, and growth is accelerating.

In some ways the Chinese market is much like everywhere else. The same brands are popular, besides a few companies that are perceived in China to be Western but are in fact almost entirely geared toward China, such as Ports Design, a seller of posh clothes.

There are, however, substantial differences. The average Chinese millionaire is only 39, which is 15 years younger than the average elsewhere. Prosperous Chinese are less shy about flaunting their wealth than people in other countries. On the contrary, many believe they must show off to be taken seriously.

Whereas the market for luxury goods in other countries is typically dominated by women, in China the men fill the tills with nearly equal abandon. They buy both for themselves and for other men, since gifts lubricate business in China. They are often willing to pay a large premium over the list price for desired items-many believe, for some reason, that the more something costs, the better it is.

China's growing taste for bling is a good thing not only for makers of luxury goods but also for Chinese consumers. It is a symptom of the fact that they have more to spend, that necessities no longer gobble up every spare yuan and that they can afford to add a little colour to their lives. Mao Zedong would not have approved, but his former serfs ignore his frowns and merrily fritter away the banknotes that still depict his face.

Index | Business

Piracy in Spain

Ending the open season on artists

Feb 17th 2011 | *MADRID* | from the print edition

A haven for digital pirates at last gets tougher

LIKE the pirates of the Spanish Main, modern Spaniards like to get something for nothing. Nearly half of all internet users in Spain use services that distribute music illegally-double the European Union average, according to the International Federation of the Phonographic Industry, a trade group.

Type the name of any American TV show into google.es and a free download of the latest episode is just two or three clicks away. Video games, no doubt including "Pirates of the Spanish Main", are pirated too. This week Spain at last decided to send in the navy.

A new law, passed on February 15th, aims to shut down iffy file-sharing websites that carry lots of copyrighted material. Digital libertarians are aghast. Alex de la Iglesia, a cult film director, resigned from his post as president of the film academy, saying the law was "not a solution" and that the internet would be the film industry's "salvation".

Yet others say the law is too weak. Other countries are tougher. Britain and France pursue and fine the consumers of pirated content. America has been leaning on the Spanish government to crack down for some time.

The most controversial aspect of the new law is the creation of a government committee on intellectual property with the power to close suspect websites pending the outcome of any court appeal. To keep the commission in check, this will require the signatures of two judges: one to safeguard the right to freedom of expression and another to authorise a

demand for the suspected perpetrator's details from the internet service provider. Despite these safeguards, Spain's Internet Users Association says it will take the case to the country's Constitutional Court, if necessary.

Content providers are still reluctant to offer their wares in Spain, though the new law may help. Spaniards can download music and films from legal outlets, but these often lack the latest releases. Peer-to-peer websites have filled the void. The country imposes an indiscriminate levy on all gadgets capable of recording or storing sounds and images, but the EU has ruled this illegal and Spain says it will modify it.

Change may be slow. Many Spaniards believe that music and movies should be free. How they imagine the artists will feed themselves is anyone's guess.

Australia and Indonesia

A row over cows

Feb 17th 2011 | *JAKARTA* | from the print edition

Indonesia curbs beef imports



Little do they know, their future involves skewers and peanut sauce

IN SEPTEMBER 1999, when East Timor was burning and Indonesia was angrily accusing Australia of supporting secession there, a diplomatic back-channel quietly opened. Australian cowmen had a word with Indonesian importers. We have a great business going, they said: let's not let a diplomatic crisis spoil it.

This "beef diplomacy" worked. After East Timor became an independent nation in 2002, the hard feelings between Indonesia and Australia eased and trade exploded. Between 2003 and 2009 annual exports of live cattle to Indonesia nearly doubled, to 773,000 head. Exports of Australian boxed beef grew nearly sixfold between 2005 and 2009, to the delight of diners at posh restaurants in Jakarta.

As Indonesia grows richer, its 240m mouths are clamouring for more spicy beef *rendang*. Australia is a short boat ride away and its cattle breeders are among the world's most efficient. Trade benefits both sides. Even strict Muslims trust that Australian beef meets halal standards.

The cattle are reared in Australia's tropical northern provinces for up to two years. Then they are shipped to feedlots in Java and Sumatra for fattening. Indonesian farmers sell leftover palm-kernel cake, cocoa-pod husks, corn, grasses and pineapple skins to the feedlots. They also work on them: a single feedlot can employ 700 pairs of hands.

All this is now under threat, however. Indonesian officials have started beefing that their country needs to be self-sufficient. The government plans to curb imports and increase the supply of domestically born-and-bred beef until it is 90 of the market. Last year import permits suddenly became harder to obtain. Australian live-cattle exports to Indonesia dropped by more than 30% between 2009 and 2010.

If Indonesia follows through on its plan, Aussie cattle breeders will be devastated. More than 80% of their exports go to Indonesia. They are furious. Their politicians hear them, and have complained to Jakarta. Australian officials say that although the Indonesians aren't technically breaking World Trade Organisation rules, they are violating the spirit of free trade.

The next few months will be crucial. The Indonesian Agriculture Ministry has set a quota of 500,000 head of imported cattle for 2011. Hardly anyone believes that Indonesian farmers can make up the shortfall: domestic production currently satisfies only 62% of Indonesians' craving for beef. In September beef prices in Jakarta rocketed ahead of the Muslim Idul Fitri holiday. Local traders, who are not fools, blamed the import curbs.

The idea that buying beef from the sparsely populated cattle country next door is somehow a threat to Indonesian security is laughable. But Indonesia is not the first country to succumb to agricultural protectionism, and will not be the last.

Index | Business

Walmart in South Africa

The beast in the bush

Feb 17th 2011 | *JOHANNESBURG* | from the print edition

A hungry predator stalks Africa



Actually, I do care about prices

ON FEBRUARY 11th the world's most successful retailer came a step nearer to establishing a presence in Africa. South Africa's Competition Commission approved Walmart's proposed acquisition of a 51% stake in Massmart, a South African firm that owns 265 wholesale and retail stores in South Africa and 25 more in 13 other African countries. Massmart's shareholders love the 16.5 billion rand ($2.3 billion) deal: 98% of them voted to approve it last month. But South African unions view it like a charging rhino in a narrow alley.

The American giant will bash unions, cut wages and drive more humane employers out of business, shop stewards predict. They also fear that it will source cheap products from China instead of buying locally. Mere talk of the merger has already destroyed "thousands of jobs", they claim, by forcing other South African retailers to lay off workers and make working conditions worse in preparation for the great American onslaught. The Congress of South African Trade Unions, South Africa's biggest union group, has threatened to stage "the mother of all boycotts" of Massmart products and a strike at all its stores if Walmart takes over.

The Competition Commission is sceptical of the unions' claims. It said it had received assurances from the merging parties that they would honour existing union agreements, abide by South Africa's tough labour laws and source most of their products locally. Massmart insists it has no plans to make any lay-offs. On the contrary, it says it plans to open 54 new stores (net) over the next three years and add 6,300 new hires to its 27,000 employees. Further objections from South African unions and others will be heard by the Competition Tribunal, another official body, next month. It, too, is expected to rule in favour of the deal.

Ten years ago Massmart, which is South Africa's leading wholesale warehouse business, decided that it needed a global partner. Walmart began sniffing around South Africa three years ago, seeking a toehold on a continent where consumer spending power has risen sharply in the past decade.

The obvious partner was Shoprite, Africa's biggest grocer. But Massmart increased its allure by rushing into the food-retailing business, and the gamble paid off. Massmart now has 40 grocery stores in South Africa, with many more in the pipeline, and has become the country's third-biggest food retailer. If the merger is consummated, Massmart will continue to trade under its old brand names, such as Game, Makro, Builders' Warehouse and CBW.

But beyond this, the Beast of Bentonville is cagey about its plans. Walmart says it aims not to change Massmart's strategy, but simply "to put the foot on the accelerator". It may be a heavy foot. Walmart did not become a $200 billion company without running down a few pedestrians. Few doubt that it will use all its skill and muscle to reduce prices and woo shoppers. It may stumble for cultural reasons, as it did in Germany. But if it succeeds, the effects may be profound.

South African retailers such as Shoprite, Pick 'n' Pay, Spar and Woolworths are highly sophisticated and offer a fine array of fresh food, at least in the big cities. But they cannot match Walmart's scale, global sourcing network or logistical brilliance. So there is a chance that Walmart will reduce prices so much that it affects the national inflation rate, as it has in America. At a time of painfully surging food prices, that would be a hefty boon for the needy. But it won't please everyone.

Cloud computing

A market for computing power

Feb 17th 2011 | from the print edition

A new spot market makes cloud computing a commodity



LIKE oil or pork bellies, computing capacity is now a tradable commodity. February 14th saw the launch of SpotCloud, the world's first spot market for cloud computing. It works much like other spot markets. Firms with excess computing capacity, such as data centres, put it up for sale. Others, which have a short-term need for some number-crunching, can bid for it. Enomaly, the software firm behind SpotCloud, takes a cut of between 10% and 30%, depending on the size of the deal.

SpotCloud differs from other spot markets in that it is "opaque": the firms offering capacity do not have to reveal their identity. The idea is to attract firms that also sell premium computing services, which might want to offload unused capacity cheaply but do not want to cannibalise their main business.

The service is technically surprising. Enomaly did not build a big central infrastructure, because the bandwidth demands "would have killed us", says Reuven Cohen, the firm's founder. Instead, it works with Google App Engine, another cloud-computing provider, which gives Enomaly access to a decentralised global system. The buyer's "virtual machine" files (a virtual machine is the main unit of measurement in cloud computing) are parked on App Engine before being sent to a seller's servers. Buyers can also specify in which country or even city they want their virtual machines to run.

Until recently many sceptics (including *The Economist*) doubted that wisps of cloud could be auctioned like this. For security reasons, it seemed more likely that virtual machines would move about mostly within clouds controlled by a single company ("private clouds") or trusted federations of "public clouds" (where anyone can buy capacity).

Mr Cohen has proved the sceptics wrong. SpotCloud has been up and running since November in a closed trial-and has already attracted a lot of supply. It often comes from unexpected places. For instance, an entertainment company has offered capacity on 4,000 servers that would otherwise sit unused (probably in a lull between making animated movies). In other cases, says Mr Cohen, firms offer the capacity of old servers, which otherwise would be thrown away at some point.

The big question is whether there is enough demand. Mr Cohen is optimistic. He sees many ways in which Enomaly's marketplace could be used: getting non-critical computing tasks done speedily and cheaply, testing new websites and quickly adding computing capacity in certain regions. But he also warns that SpotCloud is not for those with long-term computing needs that must be satisfied with a guaranteed level of service. Rather, it is for those who need capacity in a hurry and do not mind starting all over again if something goes wrong.

Schumpeter

The art of management

Feb 17th 2011 | from the print edition

Business has much to learn from the arts



ARTISTS routinely deride businesspeople as money-obsessed bores. Or worse. Every time Hollywood depicts an industry, it depicts a conspiracy of knaves. Think of "Wall Street" (which damned finance), "The Constant Gardener" (drug firms), "Super Size Me" (fast food), "The Social Network" (Facebook) or "The Player" (Hollywood itself). Artistic critiques of business are sometimes precise and well-targeted, as in Lucy Prebble's play "Enron". But often they are not, as those who endured Michael Moore's "Capitalism: A Love Story" can attest.

Many businesspeople, for their part, assume that artists are a bunch of pretentious wastrels. Bosses may stick a few modernist daubs on their boardroom walls. They may go on corporate jollies to the opera. They may even write the odd cheque to support their wives' bearded friends. But they seldom take the arts seriously as a source of inspiration.

The bias starts at business school, where "hard" things such as numbers and case studies rule. It is reinforced by everyday experience. Bosses constantly remind their underlings that if you can't count it, it doesn't count. Quarterly results impress the stockmarket; little else does.

Managers' reading habits often reflect this no-nonsense attitude. Few read deeply about art. "The Art of the Deal" by Donald Trump does not count; nor does Sun Tzu's "The Art of War". Some popular business books rejoice in their barbarism: consider Wess Robert's "Leadership Secrets of Attila the Hun" ("The principles are timeless," says Ross Perot) or Rob Adams's "A Good Hard Kick in the Ass: the Real Rules for Business".

But lately there are welcome signs of a thaw on the business side of the great cultural divide. Business presses are publishing a series of luvvie-hugging books such as "The Fine Art of Success", by Jamie Anderson, Jorg Reckhenrich and Martin Kupp, and "Artistry Unleashed" by Hilary Austen. Business schools such as the Rotman School of Management at the University of Toronto are trying to learn from the arts. New consultancies teach businesses how to profit from the arts. Ms Austen, for example, runs one named after her book.

All this unleashing naturally produces some nonsense. Madonna has already received too much attention without being hailed as a prophet of "organisational renewal". Bosses have enough on their plates without being told that they need to unleash their inner Laurence Oliviers. But businesspeople nevertheless have a lot to learn by taking the arts more seriously.

Mr Anderson & co point out that many artists have also been superb entrepreneurs. Tintoretto upended a Venetian arts establishment that was completely controlled by Titian. He did this by identifying a new set of customers (people who were less grand than the grandees who supported Titian) and by changing the way that art was produced (working much faster than other artists and painting frescoes and furniture as well as portraits). Damien Hirst was even more audacious. He not only realised that nouveau-riche collectors would pay extraordinary sums for dead cows and jewel-encrusted skulls. He upturned the art world by selling his work directly through Sotheby's, an auction house. Whatever they think of his work, businesspeople cannot help admiring a man who parted art-lovers from pound70.5m ($126.5m) on the day that Lehman Brothers collapsed.

Studying the arts can help businesspeople communicate more eloquently. Most bosses spend a huge amount of time "messaging" and "reaching out", yet few are much good at it. Their prose is larded with cliches and garbled with gobbledegook. Half an hour with George Orwell's "Why I Write" would work wonders. Many of the world's most successful businesses are triumphs of story-telling more than anything else. Marlboro and Jack Daniels have tapped into the myth of the frontier. Ben & Jerry's, an ice-cream maker, wraps itself in the tie-dyed robes of the counter-culture. But business schools devote far more energy to teaching people how to produce and position their products rather than how to infuse them with meaning.

Studying the arts can also help companies learn how to manage bright people. Rob Goffee and Gareth Jones of the London Business School point out that today's most productive companies are dominated by what they call "clevers", who are the devil to manage. They hate being told what to do by managers, whom they regard as dullards. They refuse to submit to performance reviews. In short, they are prima donnas. The arts world has centuries of experience in managing such difficult people. Publishers coax books out of tardy authors. Directors persuade actresses to lock lips with actors they hate. Their tips might be worth hearing.

Corporations chasing inspiration

Studying the art world might even hold out the biggest prize of all-helping business become more innovative. Companies are scouring the world for new ideas (Procter and Gamble, for example, uses "crowdsourcing" to collect ideas from the general public). They are also trying to encourage their workers to become less risk averse (unless they are banks, of course). In their quest for creativity, they surely have something to learn from the creative industries. Look at how modern artists adapted to the arrival of photography, a technology that could have made them redundant, or how William Golding (the author of "Lord of the Flies") and J.K. Rowling (the creator of Harry Potter) kept trying even when publishers rejected their novels.

If businesspeople should take art more seriously, artists too should take business more seriously. Commerce is a central part of the human experience. More prosaically, it is what billions of people do all day. As such, it deserves a more subtle examination on the page and the screen than it currently receives.

Economist.com/blogs/schumpeter

Index | Briefing

Central banks

A more complicated game

Feb 17th 2011 | *WASHINGTON, DC* | from the print edition

The West's financial crisis has shaken public confidence in its leading central banks. Yet it has also led to an expansion of their duties and powers



IN TWO days, two prominent central bankers, one on each side of the Atlantic, headed for the exit. Few people were surprised when Kevin Warsh tendered his resignation from the Federal Reserve on February 10th. Rather more people were taken aback when rumours started to fly that Axel Weber would stand down as president of Germany's Bundesbank and thus rule himself out as the next president of the European Central Bank (ECB), a job for which he had been the front-runner. The rumours were confirmed on February 11th.

The timing was coincidental. Yet the two men have something in common. Both were uneasy about changes in the way that central banks conduct themselves-specifically, about the unprecedented forays into financial markets by the Fed and the ECB. Mr Weber publicly opposed the ECB's decision last May to start buying the bonds of member countries' governments. His colleagues, he believed, were intruding dangerously into fiscal policy. Mr Warsh, similarly though more quietly, fretted that the Fed's policy of quantitative easing (QE)-the purchase of government bonds with newly printed money-was fomenting new imbalances in the global economy and steering the Fed into treacherous political waters.



Since the financial crisis in 2007 central banks have expanded their remits, either at their own initiative or at governments' behest, well beyond conventional monetary policy. They have not only extended the usual limits of monetary policy by

buying government bonds and other assets (see chart). They are also taking on more responsibility for the supervision of banks and the stability of financial systems. Their new duties require new "macroprudential" policies: in essence, this means regulating banks with an eye on any dangers for the whole economy. And their old monetary-policy tasks are not getting any easier to perform. Central banking is becoming a more complicated game.

The new duties also bring new risks. Before the crisis, a political consensus had emerged: central banks should be run by technocrats, free of interference by government, pursuing one goal, price stability, with one tool, short-term interest rates. Many gave up the supervision of banks to other regulators. The connection between interest rates and inflation may not have been exact, but at least central banks had plenty of theory and evidence to guide them. In contrast, the effects of unconventional monetary policy, such as bond purchases, are largely unknown. Proponents argue that with interest rates at or near zero, it is a sensible way of keeping credit flowing and preventing deflation. Opponents say that it bails out profligate treasuries and risks recreating the speculative bubbles that led to the financial crisis in the first place.

Financial stability is politically a more treacherous mission than price stability, notes David Archer of the Bank for International Settlements (BIS), a co-ordinating body for central banks. During booms, macroprudential measures, such as restraints on lending, will tend to arouse anger, and if they avert a crisis, the public will never know. Yet if a crisis strikes, the public, with perfect hindsight, will blame the central bank for not acting sooner. "The relationship between the central bank and government is likely to become more difficult and more political," he adds.

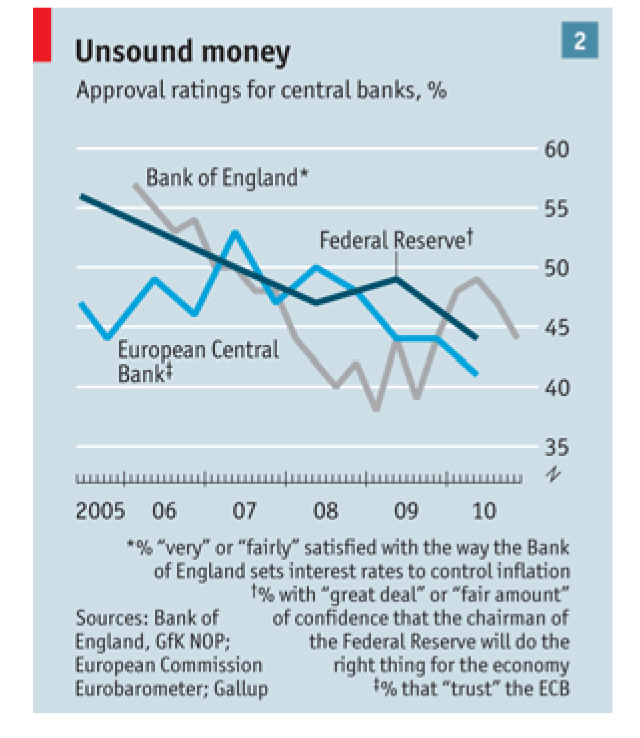
The way we were

In a sense, central banks have returned to their roots. The first central banks were created to handle the sovereign's financial affairs and issue a national currency. That endowed them with competitive advantages that led naturally to becoming lenders of last resort to commercial banks. Because such lending created moral hazard and the risk of loss, they also became those banks' supervisors. Only later did monetary policy-managing economic growth and inflation-become a primary duty. Charles Goodhart, a monetary historian and a former member of the Bank of England's monetary-policy committee, has noted, "The monetary (macro) functions of central banks were largely grafted onto the supervisory functions."

In the decades before the crisis, the intellectual consensus changed. Monetary policy took on more of the trappings of a quasi-scientific discipline: the judicious adjustment of the short-term interest rate could keep inflation low and thus iron out the bumps of the business cycle. In this central banks were aided by increasingly sophisticated markets which, by diffusing risk, had apparently made the financial system more resilient. Central bankers and regulators were "lulled into complacency by a combination of a Panglossian worldview and benign experience," Janet Yellen, the Fed's vice-chairman, said last year.

Many central banks did have responsibility for financial stability, but they carried it out poorly. In 1996 the Bank of England pioneered financial-stability reports (FSRs); over the next decade around 50 central banks and the IMF followed suit. But according to research cited by Howard Davies and David Green in "Banking on the Future: The Fall and Rise of Central Banking", published last year, in 2006 virtually all the reports, including Britain's, assessed financial systems as healthy. In the basic function of identifying emerging threats, "many central banks have been performing poorly," they wrote. The authors, who both worked at the Bank of England, attribute the FSRs' failure either to simple lack of competence or to reluctance to publicise weaknesses.

The failure to spot trouble in the system as a whole was replicated in the supervision of individual banks. The Fed is the most powerful of America's four national bank regulators because it oversees bank holding companies such as Citigroup and Bank of America, which needed federal support, and Wachovia, which was saved from collapse by merging with Wells Fargo. Yet its supervisors were often understaffed, too deferential to the banks, demoralised by lack of support from their bosses, ignorant of what regulators at other agencies were doing and reluctant to punish banks formally for fear of unsettling markets, according to testimony and documents collected by Congress's Financial Crisis Inquiry Commission.



Not surprisingly, public confidence in central banks has plummeted (see chart). That makes it all the more remarkable that they are being given more responsibility, not less. Governments have instructed them to oversee financial stability; or the central banks have reaffirmed this duty for themselves. Institutional barriers between bank supervision and monetary policy have been removed in the hope that central banks will have a fuller picture of financial and macroeconomic risks.

With more jobs, central banks need more tools. Short-term rates are too blunt an instrument to deal with the many threats that a financial system may face. Hence the interest in macroprudential policy. If a bubble in share prices or property threatens the whole economy, better to prick it surgically rather than bludgeon everyone with higher interest rates.

Central banks in emerging markets have long used tools of this kind to control credit growth and capital flows. For instance, they vary reserve requirements (cash that commercial banks must keep on deposit at the central bank) or impose quantitative limits on bank lending. Central banks in richer countries have not used them for many years, considering them ineffective, distorting or both. The Fed, for example, ruled out margin requirements to tame the stockmarket in the 1990s. Many have dispensed with reserve requirements altogether. Spain was a notable exception: haunted by the memory of a banking crisis in the 1970s, in 2000 the Bank of Spain began requiring leading banks to set aside a portion of profits against future losses. This did not save Spain's banking system from trouble this time, but it almost certainly made it less severe.

Macroprudential policy typically requires some authority over firms and markets. In Britain the Financial Services Authority, which took over bank supervision from the Bank of England in 1998, is due to be folded back into the central bank. The central bank is to have a financial-policy committee, charged with identifying threats to the financial system, as well as a monetary one. Both will be chaired by the governor. Like the monetary-policy committee, the financial version will contain external experts as well as central bankers.

The ECB, which previously had no role in supervision, will become a partner with the European Systemic Risk Board, made up of national regulators and central bankers, and provide most of its staff and technical support. In member countries, the French and German central banks have had their supervisory responsibilities increased. Elsewhere in Europe, the Swiss National Bank is agitating to share oversight of Credit Suisse and UBS, Switzerland's two biggest banks, with the country's banking supervisor.

In America the Dodd-Frank act, which became law last July, created a 15-member Financial Stability Oversight Committee (FSOC), chaired by the treasury secretary. Although the Fed occupies only one seat, it is the most influential participant. The central bank will regulate any firm the FSOC deems "systemically important" and can compel it to raise capital or even break itself up. The Fed has created its own Office of Financial Stability Policy and Research, with 20 staff, which will be a principal source of expertise for the FSOC.

However, creating institutions is not the same as making them effective. The ECB will still rely on national regulators for information about specific firms, and those regulators are free to ignore its advice. American bank supervisors will have to overcome their habitual reluctance to challenge authority and share information. It "will require a degree of sophistication,

contrarian thinking and imagination beyond anything thought needed in the past," a chastened Federal Reserve Bank of New York concluded in an internal review of its supervisory record.

Even if regulators share what they have, there are wide gaps in the information needed to make the new policies work well. The IMF and the Financial Stability Board, a global club of regulators, want to know more about the mismatch of the maturities of banks' assets and liabilities, the connections between banks and the rest of the financial system, and non-bank financial firms, just for starters.

Testing times ahead

The first test of central banks' macroprudential prowess may already be upon them. Some worry that the low policy rates and bond purchases of rich countries' central banks are planting the seeds of the next crisis as money scurries into emerging-market property, commodities and elsewhere in search of better returns.

Central banks and regulators in emerging economies have already imposed a host of measures to cool property prices and capital inflows. Their counterparts in richer places may not be far behind. Israel may be a bellwether. Stanley Fischer, the head of the Bank of Israel, is the epitome of orthodox central banking. Yet in January he reluctantly imposed reserve requirements on foreign-currency derivatives to cool speculative buying of the shekel.

Experience so far argues against expecting too much of macroprudential policy. Since 2009, for example, Singapore has announced four rounds of measures to cool property markets, including higher loan-to-value ratios, a ban on interest-only mortgages and a stamp tax on relatively quick resales. Speculative buying has eased slightly but prices and sales have reached new highs. A review by the BIS last year found that as long as interest rates remained low, credit growth tended to resume soon after restraints were imposed.

Central banks in rich countries have a more immediate problem: that higher food and energy prices will build inflationary pressure. Last month British inflation (measured by the consumer-price index) reached 4%, two percentage points above the Bank of England's target: many economists expect interest rates to rise within a few months. In the euro area, inflation is 2.4%; the ECB aims for a rate close to but below 2%. In America, though, price pressures are still subdued.

Dealing with this old foe has been complicated by the still fragile state of rich economies and by the unconventional measures in place. In America Ben Bernanke, the Fed's chairman, has spent much of the past two weeks fending off accusations, in particular from Republicans in Congress, that QE has fuelled the global surge in commodity prices (and even revolution in Egypt). Internally, too, dissent over QE is brewing. Mr Warsh never voted against QE and is departing out of a long-standing intention to return to the private sector. However, other QE sceptics on the Fed's policy committee are turning more vocal. Meanwhile, congressional Republicans, worried that QE has turned the Fed into the handmaiden of profligate fiscal policy, have called for the central bank to be stripped of its responsibility for maintaining employment, the better to focus its attention on prices. For now, Mr Bernanke seems willing to continue QE until June as planned, but may have some agonising to do thereafter.

The pressures on the ECB are even more intense. From its inception it avoided buying government bonds because it smacked of fiscal support. Yet it started doing so last May because collapsing market confidence in the debt of some member countries could have led to the euro's break-up.

Officials at the ECB rationalise the central bank's bond-buying as essential to the conduct of monetary policy. Without it, dysfunctional bond markets would not be able to transmit the central bank's interest-rate stance to the euro zone's economy. Officials have been deeply frustrated by the failure of the European Union's politicians to resolve the zone's debt crisis. The longer the crisis drags on, the more the ECB must put its reputation at risk, by buying (or ceasing to buy) government bonds. It has already acquired, in effect, the power of veto over some countries' fiscal affairs: it prodded Ireland, whose banks were completely dependent on ECB funding, to accept a bail-out from the EU and the IMF.

Mr Weber came to believe that his views were no longer compatible with the ECB's presidency. Someone else will succeed Jean-Claude Trichet (see article). But Mr Weber and the similarly orthodox Mr Warsh have departed. The leadership of central banks is committed to the institutions' expanded role; so, for the most part, are governments. The crisis exposed central bankers as misguided in their theories and deficient in their practices, but also as indispensable. "Only they are able to provide almost unlimited system-wide liquidity at very short notice," says Jaime Caruana, the BIS's general manager. For better or for worse, the world is relying more than ever on its central banks.

Wanted: a boss for the ECB

Call of the south, pull of the north

Feb 17th 2011 | from the print edition

The race to succeed Jean-Claude Trichet gets off to an unexpected start



Now, Trichet; next, Draghi?

GETTING a top job in Europe requires skilful riding in a political steeplechase designed to trip up all but the surest-footed. Axel Weber, the head of the Bundesbank, had been strongly fancied to replace Jean-Claude Trichet as president of the European Central Bank (ECB) in November. But he has suffered the favourite's curse.

Mr Weber's decision to pull out of the race came as a surprise but perhaps should not have been, given his opposition to the ECB's decision last year to help counter the euro area's sovereign-debt crisis by buying government bonds of afflicted economies like Greece. One prerequisite for the job is to steer and represent a consensus on the ECB's 23-strong governing council (the governors of the 17 national central banks in the euro area and a six-person executive board) rather than to stand out against it.

That is a quality that Mario Draghi, governor of the Bank of Italy, certainly has. If the job were to be decided solely on merit and experience, his would be the strongest claim. But the appointment of Europe's main central banker will be taken on political grounds as well. Formally, it will be made by the leaders of the 17 euro-area states. Few doubt that the crucial voice will be Angela Merkel's.

This week the German chancellor proposed that Jens Weidmann, her economic adviser, replace Mr Weber, who leaves the Bundesbank at the end of April. This suggests she will not field an alternative candidate such as Klaus Regling, who heads the main European bail-out fund, for the ECB post. That would in turn have meant finding a job at the top of the Bundesbank for Jurgen Stark, on the ECB's executive board since 2006, since an unofficial rule holds that no country can hog more than one place on this prime piece of monetary estate.

Mrs Merkel may no longer be pushing for a German, but this may not clear the way for Mr Draghi. He can expect support from France, partly because this would make space on the board for a French candidate: Lorenzo Bini Smaghi, an Italian, would step down if Mr Draghi became president. But Mrs Merkel may still worry that Germans would balk at an Italian heading the ECB (with another southern European, Vitor Constancio of Portugal, already vice-president).

The chancellor may find it easier to make the case for a central banker from a smaller northern state, though the French would then have to wait until June 2012 for a chance of a seat on the board. One option would be Yves Mersch, of Luxembourg's central bank. Another would be to replace the poetry-loving Mr Trichet with a jazz fan, Erkki Liikanen of Finland.

Index | Finance and Economics

Alternative investments in Brazil

The buys from Brazil

Feb 17th 2011 | *SÃƒO Paulo* | from the print edition

This year's hot market for private-equity firms and hedge-fund managers



Waxing in Rio

BUBBLY in hand and bubbly on the boards. The scene at the BM&FBOVESPA, Brazil's main stockmarket, earlier this month encapsulated Brazil's thriving alternative-investment industry. A champagne-sipping crowd milled around Jose Carlos Reis de Magalhaes, the boss of Tarpon, a local private-equity firm, on the floor of Brazil's slick, renovated exchange. They were toasting the successful initial public offering (IPO) of Arezzo, Brazil's largest shoe retailer. Tarpon had bought a 25% stake in Arezzo for 76m reais ($43.8m) in 2007 and seen its investment nearly quintuple in value in three years. Tarpon's own share price is up by 143% from a year ago. The firm counts big endowments, like Stanford University, among the investors in its $3.5 billion fund.

Tarpon is not the only part of Brazil's private-equity and hedge-fund industry to have attracted international attention. In September Blackstone, a private-equity giant, paid $200m to take a 40% stake in Patria Investimentos, a local private-equity firm. In October JPMorgan Chase's Highbridge hedge fund, the world's largest, bought a majority stake in Gavea Investimentos, a $6 billion Brazilian fund. Brazil is "absolutely the most attractive emerging market right now," says the boss of a big American private-equity firm. Other economies may be bigger but investments there are seen as politically riskier. The Brazilian government is less hostile in its attitudes toward private, and foreign, investment.

Sceptics recall the last time people declared a golden age for private-equity investment in Brazil. Foreign firms and banks flocked there in the 1990s. When shocks from the Asian crisis pulsed through the country, and Brazil devalued the currency in 1999, plenty flocked out again. Some local firms survived the bloodshed: GP Investments, Brazil's largest private-equity firm, is still going strong, as are a handful of others from that era. But most global firms left and didn't come back until 2006, when investment activity started to rev up again.

They are returning to a bigger, more resilient economy. OECD countries saw their GDP decline by 2.7% over the course of 2008 and 2009; Brazilian GDP grew by 4.9% during that time, and by a further 7.5% last year. It is now the world's eighth-largest economy and could overtake Britain, France and Italy to become the fifth-largest by the end of this decade. The commodities boom is one source of growth: Brazil is the largest exporter of sugar, coffee and meat, and second only to America in soyabeans. Consumer spending is vibrant. The country is the world's second-largest market for cosmetics and the third-largest for mobile phones. Its hosting of the 2014 FIFA World Cup and 2016 Olympics will require at least $50 billion in infrastructure investments, many of them privately funded.



Money is pouring in, as investors throng funds' offices on bustling avenues like Faria Lima in Sao Paulo and Paiva de Ataulfo in Rio. Local hedge funds managed around $243 billion in assets at the end of 2010, up by 23% from 2009, according to the Brazilian Financial and Capital Markets Association, an industry group (see chart 1). Private-equity firms oversee $36 billion.

There are several reasons for this explosive growth. One is the maturing of the country's capital markets. Laws protecting minority shareholders' rights, for example, have fostered confidence. Brazil's exchange is now the fourth-largest in the world by market value. That is a boon for hedge funds, which need liquid instruments to trade, and for private-equity firms, which use IPOs to cash out their investments.

Investors are freer to choose where to put their money, too. Brazil's 400 or so pension funds, with assets of around $342 billion, have been allowed to place money more freely with alternative-investment firms since 2009. Pensions now account for around 22% of investments in private equity and venture capital, according to Claudio Furtado of Fundacao Getulio Vargas, a university. Valia, the $6.8 billion pension fund of Vale, a miner, has increased its allocation to private equity from 1% of assets three years ago to 6% in 2011.

The Brazilian government's sunny view of hedge funds and private-equity firms also helps explain their growth over the past few years. In many countries governments treat private-equity firms and hedge funds with either loathing or teeth-grinding tolerance. Partly because bank loans are very short-term, the tone from Brazilian officials is different. "As a country and an economy, we need private equity and venture capitalists to invest and to help our entrepreneurs," says Maria Helena Santana, who runs the CVM, Brazil's equivalent of America's Securities and Exchange Commission (SEC).



When Brazil's government raised the tax on foreign investment in fixed-income instruments last year from 2% to 6%, private-equity firms complained. The government promptly changed it back-but only for them. BNDES, Brazil's development bank, has put $1.1 billion into private-equity funds, and is the industry's top investor. Private equity accounted for a higher proportion of GDP in 2010 than in most other emerging markets (see chart 2).

Another reason for the rise in alternatives is a decline in interest rates. The benchmark Selic rate stands at 11.25%, much lower than the 26.5% it was set at in 2003. The threat of rising inflation may have reversed that trend in the short term but rates are expected to keep falling in the long run. Brazilian investors can no longer reap extraordinary returns just from parking their money in risk-free bonds. Mauricio Wanderley of Valia says he looks for returns of 25-30% on his private-equity investments, and so far they've been "above our expectations". Brazilian hedge funds have posted annualised gains of 17% over the past three years, according to EurekaHedge, a research firm. (North American funds have managed 8.6% on an annualised basis in that time.)

The buzz around Brazil will put those returns under pressure, however. Alvaro Goncalves of Stratus, a Brazilian private-equity firm, appears dismayed at the speed with which "armies" of global investment firms are arriving. Rather than fly in for visits, they now want to set up offices and hire local deal-makers. The competition is causing salaries to rise. Jon Toscano of Trivella Investimentos, a private-equity firm, estimates that executive salaries have nearly tripled in as many years.



Waxing in Rio

Greater competition has less effect on the hedge-fund industry, since there are many trading opportunities. But for private-equity firms, where the number of deal opportunities is smaller, there are huge consequences. Prices for deals have already gone up in the past year-although most investors say that companies are still not as expensive as they are in China or India, where there is even more competition.

The three largest private-equity deals in Brazil's history took place in 2010, all of them carried out by foreign firms. Stakes in consumer-related companies are particularly prized. Carlyle Group, an American buy-out firm, did three deals in 2010, involving a lingerie company, a travel firm and a health-care company-all of them bets on Brazil's middle class. Many local firms are ramping up their efforts to look for deals beyond Sao Paulo and Rio, where most of the foreign firms are based.

Ballooning deal prices may also drive crafty local firms to invest more money abroad. 3G Capital bought Burger King, an American fast-food chain, for $4 billion last year because the management felt Brazil had become too expensive and that global firms were too busy chasing deals in emerging markets to notice the opportunities at home. "You can do a buy-out in the United States of a global brand, a well-known company, and really face no competition," says Alexandre Behring of 3G.

Back in Brazil, some worry that the new entrants' preference for big leveraged buy-outs (LBOs) could damage the industry's unusually wholesome reputation. In Brazil private-equity deals are mostly unleveraged, and often involve minority positions in medium-sized companies. That's partly because high interest rates make debt crushingly expensive-the average rate for a commercial business loan is 29%. But even if credit becomes more readily available, Brazilian firms are nervous of it. Brazilian managers reel off the names of highly leveraged buy-outs that have tanked in the West. "I hope we can avoid the image that we are raiders and vultures," says Mr Goncalves. "This is the profile that these large LBO firms left in markets, and we don't want them to do that here."

It is more likely that the foreigners will have to adapt to Brazil than the other way round. Unlike China and India but like many other emerging markets, Brazil has only a limited number of large firms to invest in. Private-equity investors won't be able to swim in a sea of $500m and $1 billion deals. Given the scarcity of long-term financing, some are looking to lend instead. "A large part of our plan is to provide credit and growth-equity capital" in Brazil, says Glenn Dubin, the boss of Highbridge.

Not very wild west

Although Brazil's equity markets are liquid, concentration remains a problem for hedge funds. Eight companies account for more than 50% of the market value of the BM&FBOVESPA. Shorting the shares of smaller firms is expensive because it is hard to find shares to borrow. Larger funds have to be patient when building up positions. Luis Stuhlberger of Credit Suisse Hedging-Griffo, Brazil's largest hedge fund, says it is like being "an elephant in a bathroom. You have to move very slowly, otherwise you break everything."

Funds must also comply with strict requirements for transparency and liquidity. Brazilian hedge funds must report their net asset values daily and their positions on a monthly basis. These are then posted publicly on the website of the CVM for anyone to see. Thanks to the country's long experience of volatility and inflation, most investors do not agree to long lockup periods for their money. As a result, many funds offer daily liquidity, which means they do not have much flexibility with their strategies and cannot take illiquid positions.

Some managers complain that Brazil's regulatory system costs them their edge, because others know what they are up to. But most don't seem to mind too much. Transparency brings legitimacy to the industry and calms investors, many say. Frauds like Bernie Madoff's, which have dented investor confidence in hedge funds in America and Europe, are less likely to go unnoticed in Brazil. "Madoff would never happen in Brazil," says Eduardo Lopes of Ashmore, an emerging-markets fund.

Indeed, other markets are moving closer to a Brazilian-style system of regulating alternative investments. Hedge funds and private-equity firms have been mostly unregulated in America and Europe, but that is set to change. Later this year, America will start to require funds to register with the SEC and disclose some of their holdings to regulators. In France hedge funds now have to report their short positions; it is possible that other countries in Europe will enact similar requirements. "The financial crisis showed that many of the choices we made before are good choices," says Ms Santana of the CVM.



There are still plenty of risks in emerging markets, of course. Inflation remains a worry, and Brazil's battle to keep down the value of the real has led to other capital controls on top of the tax on foreign investment. The BOVESPA index has declined by 6% in the past month. But here too, Brazilian alternative-investment managers claim an edge because they have been through rocky markets many times before. "They've basically taken as much chemotherapy as you can take and survived it," says a foreign fund manager.

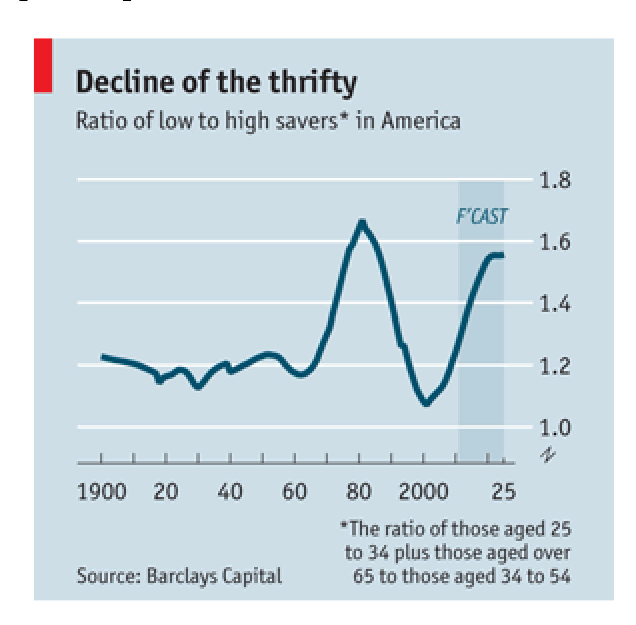
Many managers in China and other emerging markets are familiar only with good times, so some investors worry that they might not perform well if the economy stumbled. Arminio Fraga, a former central-bank governor who founded Gavea, thinks the volatile global economic environment will play to Brazilian managers' strengths in the coming years: "There are a lot of things out there that look familiar to us, given Brazil's history."

Buttonwood

Betting on Ben

Feb 17th 2011 | from the print edition

Central banks have been supporting share prices



LET all equity investors give thanks to Ben Bernanke. Global stockmarkets were struggling in the first half of 2010 but began a remarkable rally in August once the chairman of the Federal Reserve signalled that the central bank would launch another round of quantitative easing.

Higher share prices are part of the Fed's plan. Back in November Mr Bernanke wrote in the *Washington Post* that "higher stock prices will boost consumer wealth and help increase confidence, which can also spur spending. Increased spending will lead to higher incomes and profits that, in a virtuous circle, will further support economic expansion."

This is an overt version of the "Greenspan put"-the idea, named after Mr Bernanke's predecessor, that a central bank stands as an insurer of the equity market. If the Fed is aiming to boost equity prices so that consumer confidence is bolstered, it logically follows that the bank is happy for share prices to be above their natural level. After all, without central-bank action, share prices would be lower.

One guide to the artificial level of share prices in America is the cyclically adjusted price-earnings (p/e) ratio, which is calculated by Robert Shiller of Yale University. This measure averages earnings over ten years to smooth out the peaks and troughs of the economic cycle. At 23.7, the current ratio is about 45% above its historic average and close to the level of two of the 20th century's four big peaks, in 1901 and 1966.

In the past, subsequent real stockmarket returns have been low when the Shiller p/e ratio has been this high. But in the short term corporate profits have been so strong that investors are inclined to dismiss the Shiller measure, just as they did during the late 1990s.

This column has repeatedly argued that the stockmarket rally has had an ambiguity at its heart. Record-low interest rates have cut borrowing costs for homeowners and businesses, bolstered the profits of the banking sector and tempted investors out of the safety of cash. But those low interest rates are a sign that central banks are still very worried about the fragility of the economy: in its 300-year history the Bank of England has never kept rates so low.

There would seem to be a disconnect between the buoyancy of stockmarkets (which ought to reflect a positive economic outlook) and the caution of central banks. The recovery is not as strong as it might be in the developed world. Britain, Japan and Portugal all suffered GDP declines in the fourth quarter of 2010. Higher commodity prices also pose central banks a dilemma, pushing up headline inflation rates while also acting as a tax on consumer demand.

As if these macroeconomic worries were not enough, share prices also face a potential hurdle in the form of deteriorating demography. In its latest "Equity Gilt Study", Barclays Capital tested the outlook for the American equity market against a number of population variables.

It found that the most important relationship is the ratio of "low savers" to "high savers". The first category comprises those in the 25-34-year-old age group, who are borrowing to buy houses, and those in the 65-plus group, who are running down their savings to finance their retirement. The second category comprises those in the 35-54 age range, the prime earning and saving years.

The ratio between the two was pretty flat for the first half of the 20th century, and then soared in the 1960s and 1970s, as the baby boomers left college (see chart). It peaked in the early 1980s, just as shares were reaching the end of a long bear market. The ratio fell sharply as the baby boomers reached their prime saving years, hitting a low in 2000 at the time of dotcom mania. It is now climbing inexorably again as the boomers retire.

With fewer savers to channel money into the stockmarket, the model suggests that equity returns will be just 3% a year in real terms, or 5% in nominal terms. Even that figure may be too high. It is based on the consensus forecast for American GDP growth of 3% a year. But given that debt crises tend to be followed by sluggish recoveries, GDP growth may be lower. Drop the growth forecast to 2% and the Barclays model suggests nominal equity returns of less than 4%.

These kinds of model cannot forecast the short term, however. And in the short term it is hard to see the rally being halted unless central banks are forced to raise rates or there are signs of faltering growth in America or China. When you buy equities, you are betting on Ben.

Economist.com/blogs/buttonwood

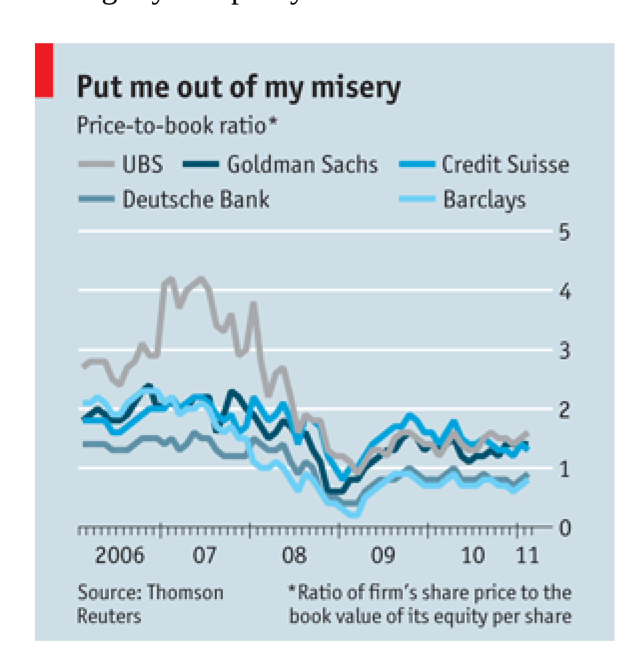
The big squeeze

Feb 17th 2011 | from the print edition

Can investment banks make high enough returns on equity to exist?

FOR financiers, closing an investment bank is like parting with a Porsche: life is too dull without it. Yet a cull is needed. Most bulge-bracket firms made billions of dollars of profits in 2010, but not enough to compensate shareholders for the far larger amounts of capital they now have invested. Three big firms- Barclays, Credit Suisse and JPMorgan Chase-this week outlined how their investment-banking units can still make a respectable return on equity (ROE) over the medium term.

The problem they face is that these divisions will be clobbered by the new Basel 3 rules. The required capital ratio will rise, as for most types of banking. But investment-banking units will also see a dramatic rise in the amount of risk-weighted-assets (RWAs) that this charge applies to. The result is that the absolute capital required under the new rules could be double that under the old ones. Taking the banks' forecasts of their RWA under the new regime, and assuming a core capital ratio of 10%, the investment-banking units of Barclays and Credit Suisse made ROEs of about 10-11% last year, while JPMorgan's division earned a slightly less paltry 13.5%.



Performance like that would normally see these units earmarked for shrinkage or closure. Yet most banks are not about to pull the plug. One theory is that the return that investors demand has also fallen to reflect the lower levels of risk being taken at these firms. But in the real world investors are disappointed by the low ROEs now on offer. Some firms trade at below their book value (see chart), implying they cannot deliver acceptable returns to their owners.

The firms argue that investors are wrong and that returns can be improved: Barclays expects its investment-banking unit to hit an ROE of 15%, JPMorgan Chase has a soft target of 17% for its unit and Credit Suisse aims for above 15% for the entire firm. This optimism is partly premised on growth-Barclays seems to assume investment-banking profits can rise by a quarter from 2010 levels within a few years. Individual banks may take market share, but for the industry as a whole, assumptions of high growth look hopelessly rosy.

Barclays and JPMorgan Chase also assume that their investment-banking units will be allowed to run with relatively low core-capital ratios of 9% and 8% respectively. That may be more than the new Basel 3 floor of 7%, but most regulators reckon that big, global banks should carry several percentage points more than the minimum, and perhaps an extra layer on top of that.

The idea of an extra buffer got a boost on February 14th when Credit Suisse said it would issue SFr6 billion ($6.2 billion) of so-called "Coco" bonds to Middle Eastern investors. These will behave like debt, paying a coupon of about 9%, unless the bank's core-capital ratio drops below 7% or regulators judge the bank to be close to collapse, at which point the Cocos

will convert into equity. Until now only a couple of other banks had dabbled with Cocos, but Credit Suisse's deal suggests a big market could exist. That is just as well, because on top of a 10% core-capital ratio, Swiss regulators will require it to carry 9%-worth (some SFr30 billion) of Coco bonds.

The gross cost of that extra layer could be SFr1.5 billion or so a year, compared with the firm's investment-banking profits in 2010 of about SFr3 billion. In its case this will largely be offset by retiring the large amount of hybrid-debt securities that it was required to carry under Switzerland's equally quirky old rules. Other firms do not have the same degree of offset available, meaning a big Coco layer could drive ROEs down farther still.

They must hope that their regulators will be laxer than the Swiss or that they outperform the rest of the industry. The former is likely, the latter impossible for all. Come what may many firms will gradually come under more pressure from shareholders to do one of three things with their investment-banking units: exit, consolidate or slash employees' pay.

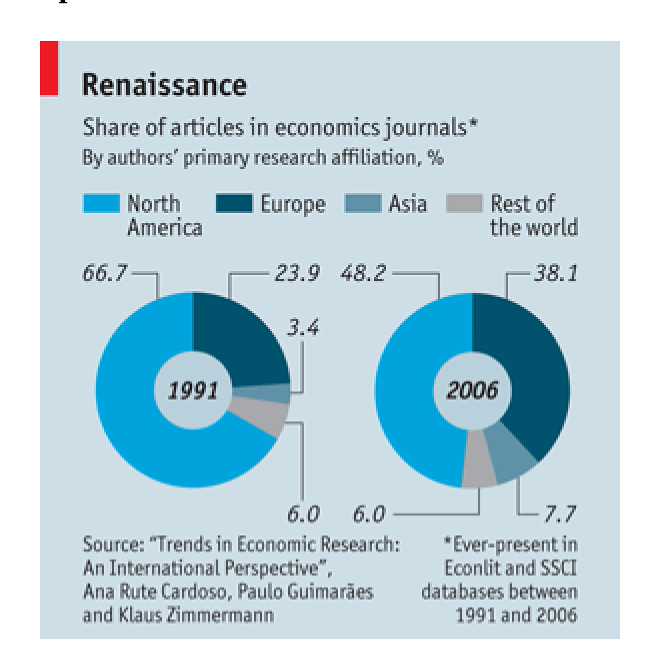
Index | Finance and Economics

The economics profession

New world order

Feb 17th 2011 | *Washington, dc* | from the print edition

Internationalisation has boosted Europe's academic clout



THE tale is familiar: institutional reform and globalisation discomfort long-dominant powers. But in the case of the economics profession, the big winners are not Asian but European.

Until recently European economists tended to teach and publish in their national languages, and cross-border study was relatively rare. But in 1999 European leaders initiated the Bologna process, a series of accords designed to promote uniform academic standards. Degrees and titles are now far more comparable. English-language teaching and publication has spread.

Internationalisation has meant a growing voice for Europe within the economics literature. In 1991 economists with a primary affiliation to North American institutions (the overwhelming majority of them in the United States) accounted for 66% of published economic research; Europeans produced just 24%. By 2006 journals had a far more continental feel, according to a new paper by Ana Rute Cardoso, Paulo Guimaraes and Klaus Zimmermann. In that year 40% of all articles were by European-affiliated economists, while the North American share had fallen to 45%. Asia's share had risen from 3% to 9%.

Some Americans pooh-pooh Europe's rise. Many new journals have started up in recent years, and European papers are far more common in their pages. But this cannot fully explain the fall in North America's market share. Controlling for new journals, the share of European papers still rose markedly (see chart).

Americans need not panic. Economists affiliated to North American institutions contribute 76% of articles in the top journals. They receive a disproportionate number of citations. But as Europe's economics stars mature, they will compete on this more hallowed turf, too.

Russian banks

In the shadow of giants

Feb 17th 2011 | from the print edition

Where privatisation means a bigger market share for state banks

RUSSIA'S second-biggest bank, VTB Bank, had no trouble placing $3.3 billion-worth of shares before a February 17th deadline, despite recent wobbles in emerging markets. The shares, also offered in the form of global depository receipts, represent a mere 10% of the bank's equity, leaving a solid 75.5% still owned by the state. What does investors' eagerness to own scraps of state-owned Russian banks say about the industry?

First, that the sector has lots of room to grow-by 20% this year, some analysts predict. The assets of Russia's entire banking system amount to a mere 75% of GDP; those of some individual banks in Britain and Switzerland account for more than 100% of their home country's GDP.

Second, the industry will be dominated by state-owned banks for a long time to come. The top five account for 48% of all assets; Sberbank, the biggest, holds 58% of all retail deposits. A sale of another 10% of VTB is mooted for this year or next, along with 7.6% of Sberbank by 2014. But in the meantime Sberbank and VTB are both getting bigger and more competitive.

Sberbank is negotiating to buy Troika Dialog, a local asset manager and investment bank. VTB recently bought TransCreditBank, the country's 13th-biggest bank, and is likely to snap up Bank of Moscow, the fifth-biggest, unless private banks thwart it. Alfa-Bank, Russia's biggest private bank, is pressing for a public auction of Bank of Moscow, which is 64%-owned by the City of Moscow and came on the market after the sacking of Yuri Luzhkov, Moscow's then mayor, in September.

Barclays, a British bank which bought a Russian lender in 2008, has given up the fight. On February 15th it said it would sell its Russian retail operations, writing off pound243m ($393m) of goodwill. But this relates more to a general drive by Barclays to get out of less profitable businesses than a reflection on Russia. Many other foreign banks are still committed to the market.

Views of profitability depend on when you bought the asset and the assumptions made at the time, says Pavel Gurin, the chief executive of ZAO Raiffeisenbank, which is owned by Austria's RZB Group. Along with UniCredit of Italy and Rosbank, 75%-owned by France's Societe Generale, it leads the handful of foreign-owned banks in Russia with critical mass (critical enough that the central bank offered them extra liquidity during the financial crisis).

Raiffeisenbank had a fantastic year in Russia before the crisis, with a pre-tax return on equity of 52%. That return dropped to 18% in 2009 but analysts reckon things got better in 2010 and will continue to improve this year. The greatest promise lies in corporate and investment banking rather than in retail lending, where prices are set by Sberbank. But even there, money can be made. Societe Generale announced on February 16th that its Russian consumer business had returned to profit for the first time since the crisis.

The state-owned giants may even benefit outsiders by enhancing stability. There are still over 1,000 smaller banks in Russia. Many should be closed or consolidated, some have murky ownership. But the 100 biggest banks are becoming more transparent and better run, say locals. Progress is slow but it is still progress.

Index | Finance and Economics

Syria's government bonds

Captive market

Feb 17th 2011 | *DAMASCUS* | from the print edition

How to sell government debt in the middle of a regional crisis



Damascene, yes. Conversion, no

TRYING to flog sovereign debt three days after the fall of a neighbouring president appears audacious. But the Syrian government's offering of three billion Syrian pounds ($63.9m) of six-month bills and three-year bonds on February 14th-following a trial run in December, the first in decades-was less risky than it looked. Nine banks bought, and the auction was oversubscribed.

The sale reflects the relative stability of Syria's government. But it has more to do with the scarce choices available to domestic banks, the only permitted bidders. Fourteen private banks, all of which are subsidiaries of Arab banks, have opened since Syria's centrally planned economy started to creak open in 2000. But they suffer from limited currency convertibility and a lack of investment opportunities. Undeveloped credit scoring and a lack of transparency hamper their ability to issue retail loans. Surplus liquidity currently sits interest-free in Syria's central bank.

That gives the government plenty of scope to drive down its borrowing costs. Private banks groan about yields below the rate of inflation: the six-month bills yielded 1% and the three-year bonds just over 2.7%. "The government is in effect asking private banks to lend it money at a subsidised rate," moans one banker. "But we have no other option."

More sales will follow: this year's projected bond issuance is 30 billion Syrian pounds. Syria's government has long been urged by the IMF to issue bonds to finance its budget deficit-funded until now by internal borrowing. The deficit is modest, predicted at 5.8% of GDP this year, thanks to a rise in the price of oil. But Syria's oil reserves are diminishing, and plans to do away with subsidies may be diluted as the government keeps a wary eye on regional unrest. The country is also looking to invest billions of dollars in infrastructure projects.

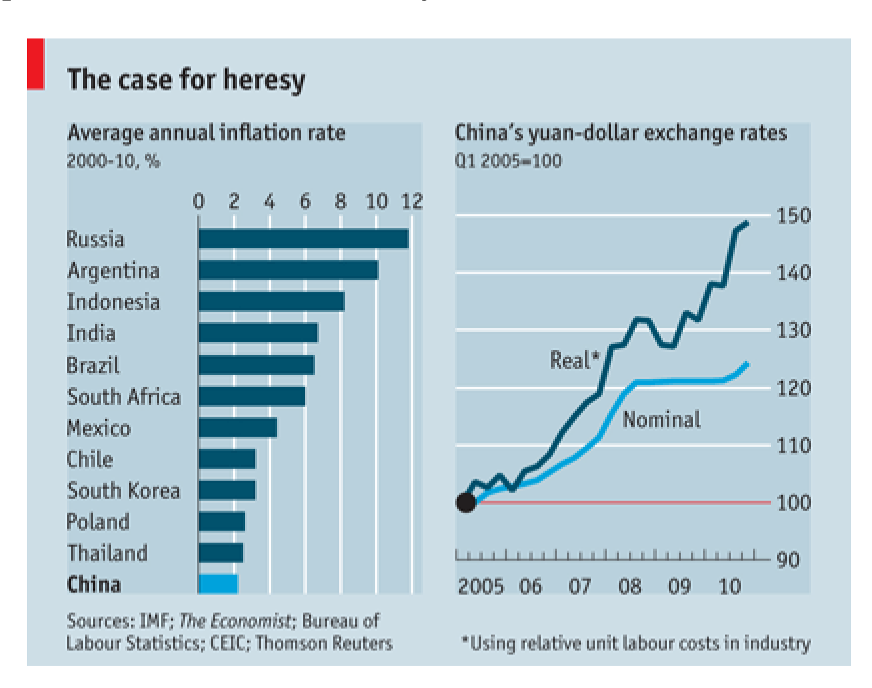
What the government does not want, however, is to rely on foreign creditors for its borrowing. Syria is not planning to issue international bonds. A preoccupation with sovereignty and problems with transparency contribute to that, says Abdulkader Husrieh, a local financial analyst. And complain though they might, domestic banks can be counted upon to lap up the debt.

Economics focus

Learning to like inflation

Feb 17th 2011 | from the print edition

Higher inflation could help to rebalance China's economy



CHINA'S inflation rate has become one of the world's most closely watched numbers. This week's release showed that inflation rose to 4.9% in January, up from 1.5% a year earlier. The increase was smaller than expected, but has not quelled fears that as inflation creeps up the government will need to slam on the economic brakes. Some economists, however, believe that China should welcome higher inflation as a more effective way to rebalance its economy than a currency appreciation.

The recent surge in Chinese inflation has been driven mainly by food prices, but non-food inflation has also risen to 2.6%, its highest rate since the series began in 2001. Wages are increasing at a faster rate. For many years China's large pool of surplus labour held average pay rises below the rate of productivity growth. But as fewer young people enter the workforce, wages are now rising faster than productivity. Arthur Kroeber of Dragonomics, a Beijing-based research firm, argues that if higher inflation reflects faster wage growth, this will help China, not hurt it.

Economists brought up to believe inflation is always a bad thing will choke on the idea of welcoming more of it, but the truth is that China's average inflation rate of 2% over the past ten years has been unusually low for a developing country (see left-hand chart). The optimal inflation rate in an emerging economy is often higher than in the developed world because of something called the "Balassa-Samuelson effect". As low-income countries catch up with richer ones, faster productivity growth in the tradable-goods sector pushes up wages. Since labour is mobile, this in turn leads to higher wages in the non-tradable sector, where productivity growth is slower, so prices rise faster than in rich countries. Moreover, some of the ways in which inflation is thought to be harmful to growth, such as discouraging saving and investment, hardly matter in China, where both look excessive.

Indeed, a bit more inflation could help to rebalance China's lopsided economy. Its biggest imbalance is too little consumption, largely because wages have fallen as a share of national income. When wages rise more slowly than productivity, an economy produces more than it can consume, resulting in a current-account surplus. If wages now outpace productivity, workers' share of the cake will rise, boosting consumption and helping to reduce China's external surplus.

Wage-driven inflation would also help to narrow China's trade surplus by pushing up the price of its exports. Conventional wisdom says that a stronger yuan would reduce China's current-account surplus. Yet the empirical support for this is weak. In a paper published in 2009, Menzie Chinn of the University of Wisconsin and Shang-Jin Wei of Columbia University examined more than 170 countries over the period 1971-2005*, and found little evidence that countries with flexible exchange rates reduced their current-account imbalances more quickly than countries with more rigid regimes.

In adjusting current accounts, what matters is the real exchange rate (which takes account of relative inflation rates at home and abroad). Movements in nominal exchange rates often do not achieve the desired adjustment in real rates because they may be offset by changing domestic prices. For example, the yen's trade-weighted value is around 150% stronger than it was in 1985. Yet Japan's current-account surplus remains big because that appreciation has been largely offset by a fall in domestic Japanese wholesale prices, so exporters remain competitive.

An alternative way to lift a real exchange rate is through higher inflation than abroad. To an American buyer, a 5% increase in the yuan price of Chinese exports is the same as a 5% appreciation of the yuan against the dollar. Mr Kroeber argues that rebalancing the economy by running an inflation rate of 4-6% would be preferable to either a sharp increase in the yuan, which could cause big job losses in export firms, or a gradual appreciation which attracted large speculative capital inflows, as happened in 2005-08. Inflation is already playing the bigger role. The yuan has risen by only 4% against the dollar since early 2009, yet, according to calculations by *The Economist*, the yuan's real exchange rate against the dollar (measured using unit labour costs in industry) has strengthened by 17% (see right-hand chart), because costs in China are rising much faster than in America.

The runaway risk

What about the risk that inflation could get out of control, as in Latin America in the 1980s and 1990s or in China itself in 1989, when an inflation rate of over 25% triggered unrest? Runaway inflation is usually the result of fiscal excess, financed by printing money, or rigid labour markets, which produce a wage-price spiral that the central bank fails to stop. Unlike Latin America in the past, China has a record of fiscal prudence and trade unions are docile. Its labour market is much more flexible than in the late 1980s, when most workers were in the state sector.

China is more like Japan and South Korea during their eras of rapid growth than any Latin American country. Over 15-year periods ending in Japan in 1972 and South Korea in 1996, GDP growth averaged around 9% a year and inflation averaged 5-6% without it accelerating out of control. China's government cannot be complacent about rising prices. It should anchor expectations by setting an explicit inflation target. Interest rates on bank deposits need to be raised in line with inflation to encourage households to keep their money in the bank rather than speculate in property or shares. Otherwise negative real interest rates will inflate asset bubbles. That implies China still needs a more flexible exchange rate so it can lift interest rates while those in America remain low. But a bit more inflation would be welcome as well.

* "A Faith-based Initiative Meets the Evidence: Does a Flexible Exchange Rate Regime Really Facilitate Current Account Adjustment?", by Menzie Chinn and Shang-Jin Wei. www.ssc.wisc.edu/Ëœmchinn/chinn_wei_ca.pdf

---

Index | Science & Technology

Pollution and global warming

Climate change in black and white

Feb 17th 2011 | from the print edition

When air pollution hurts people's health and heats up the climate it makes sense to do something about it. But what about pollution that cools the planet?



AN IDEAL fossil-fuel power-plant would produce power, carbon dioxide and nothing more. Less-than-ideal ones-not to mention other devices for the combustion of carbon, from diesel generators to brick kilns and stoves burning dung-also emit various gases and gunk. These often cause local environmental problems, damaging lungs, hurting crops and shortening lives. And some of the gunk, notably soot or "black carbon", can warm the planet, too.

Next week ministers attending the governing council of the United Nations Environment Programme (UNEP) in Nairobi will be presented with the summary of a new report on how fighting air pollution can help the global climate (the report itself is due to follow a couple of months later). The summary makes a powerful case for acting on two short-lived climate "forcings", factors that change the amount of energy the atmosphere absorbs, as carbon dioxide does, but stay in it only briefly. One is black carbon and the other is ozone, which is vital for blocking ultraviolet rays in the stratosphere but hazardous in the bits of the atmosphere where plants live and people have to breathe.

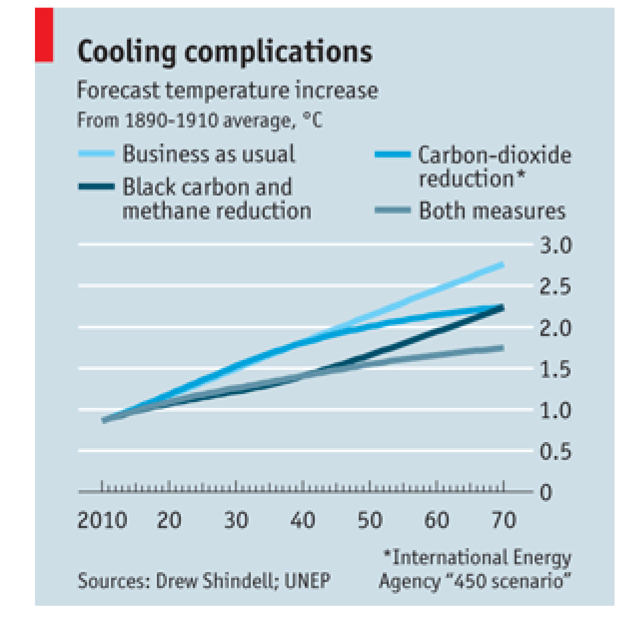
According to the UNEP report, implementing measures known to be effective against these two pollutants over the next 20 years would have "immediate and multiple" benefits, including temperatures between 0.2^C and 0.7^C lower than they would otherwise be by 2050 and the saving of between 0.7m and 4.6m lives with improved air quality. For black carbon the measures are largely in the form of more efficient ways of burning things; for ozone they mostly involve reducing emissions of methane, which encourages reactions in the atmosphere that make ozone. The black-carbon measures save a lot more lives than ozone control, but are trickier to assess in terms of climate.

Clearing the air

UNEP's interest in black carbon dates back to a plane journey taken a decade ago. Veerabhadran Ramanathan, of the Scripps Institute of Oceanography in La Jolla, California, and Paul Crutzen, a Dutch climate scientist who was one of the first to theorise about "nuclear winter", wanted to find out what aerosols (particles small enough to float in the atmosphere) were doing to the climate. Their campaign, which brought together 150 scientists and a plethora of research aircraft and satellites, revealed the hitherto unappreciated extent of an "Asian brown cloud" thousands of kilometres across and fed by fires, diesel fumes and all manner of other things.

In 2001 Dr Ramanathan took Klaus Topfer, then UNEP's executive director, on a flight along the foothills of the Himalayas to see the brown cloud lapping at the mountain range like dirty water at the rim of a bathtub. From that day on UNEP has taken a keen interest in the issue. Now, according to its current executive director, Achim Steiner, the science of short-lived climate changers has matured enough for the issue to deserve a place at the top of the policy agenda.

One aspect of this maturity is that short-lived forcings have become relevant to more people as the scale of their effects has been recognised. This is particularly true for black carbon. Soon after coining the term "Asian brown cloud", Dr Ramanathan realised there were similar if less intense clouds over parts of Africa and elsewhere; the initials ABC, already used by researchers, were retrofitted to stand for "atmospheric brown cloud" (which also appeased some political sensibilities).



Another reason for the increased interest in all this has less to do with science than politics. Negotiations under the UN's climate-change convention have had some limited success in getting countries to say they will cut emissions of carbon dioxide and other long-lived greenhouse gases. But even if these cuts make the crucial transition from word to deed, they are too small to give the world much of a chance of staying below two degrees of warming, which is the level currently seen, somewhat arbitrarily, as the climate's don't-even-go-there line. Action on short-lived things like black carbon and ozone could help keep the climate on the right side of that line for a few decades longer. That does not do much about the need to cut carbon-dioxide emissions for long-term safety, but it might provide a few decades of grace (see chart).

And doing something about these short-lived forcings is easier than tackling carbon dioxide. Since carbon dioxide is an essential by-product of burning fossil fuels, controlling it is a big economic issue. And because it lasts a long time and is evenly mixed around the planet, action on emissions in, say, America and China is directly comparable. This leads to the sort of burden-sharing negotiations that easily get deadlocked. Short-lived forcings have the advantage of being comparatively cheap to cut: for black carbon tried and true measures include retiring old vehicles, filtering exhausts, getting people better stoves and cleaner fuel to burn in them, stopping widespread burning of agricultural waste, and modernising kilns and coking ovens. The benefits in terms of breathing better and dying later accrue mostly to the country that is doing the cutting.

But some of the effects of things like ABCs tend to be regional. So countries need to work together in a number of different ways-including regional agreements, bilateral aid and comparisons of best practice. UNEP already either facilitates or functions as the secretariat for about a dozen regional pollution agreements. More venues and more instruments to work with should help climate diplomacy move beyond its endless who-should-do-more arguments. David Victor, who works on energy and environmental policy at the University of California, San Diego, argues that seeing positive results relatively quickly from co-operation on things like black carbon could actually increase the levels of trust and ambition seen in negotiations about carbon dioxide-a good thing.

Clouding the issues

The science may have matured, but the role that black carbon and other aerosols play in the changing climate is still rife with nuance, uncertainty and doubt. Durwood Zaelke, president of the Institute for Governance and Sustainable Development and an adviser to UNEP, says these are normally things which frighten policymakers. But he believes the new report lays out the uncertainties clearly while still making a compelling case for action.

Climate forcings are, for the sake of comparison, expressed in terms of watts per square metre: more watts, more warming. The forcing due to the carbon dioxide added to the atmosphere by people over the past few centuries is put at 1.7 watts per square metre. Other greenhouse gases add another watt. Dr Ramanathan puts the figure for black carbon at something like 0.9 watts per square metre, on the basis of observations, with a range of possible values that goes from 0.4 watts per square metre to 1.2. Climate modellers tend to find values near the bottom of that range; this may mean the models are underestimating the amount of black carbon being emitted, or that Dr Ramanathan's figure is too high.

The effect may be amplified, or reduced, by many factors. Black carbon is not emitted alone, but mixed with other things-organic molecules and various oxides of sulphur and nitrogen. These can form less-black particles that reflect, rather than absorb, the sun's energy. These paler aerosols, and to some extent the blacker ones too, can provide sites for water to condense. That promotes the formation of clouds, which reflect sunlight back into space. These are some of the reasons

why, though the black carbon in brown clouds has a warming effect, the clouds' net effect is to cool the planet beneath them.

When such a layer of pollutants warms the atmosphere (because of its black-carbon content) but cools the surface, it can have effects well beyond any net warming or cooling. If the surface is cooled and the air above it warmed, there is less tendency for air from near the surface to rise; reduced convection will tend to lead to fewer clouds and reduced rainfall. This sort of change matters more, for a lot of purposes, than the surface temperature. It was an extreme version of this rainless cold-below, warm-above stability that made early models of nuclear winter so disturbing.

All this means that no one can say exactly how much warming will be avoided by acting on black carbon. If it were not for the clouds, says Tami Bond of the University of Illinois, most experts would expect a cooling from steps to reduce black carbon even if those steps also reduced emissions of organic compounds and other cooling aerosols. But given the effects on cloud formation and dissipation (a cloud laced with black carbon does not last as long) the potential for error in estimating the final effects is large. Dr Bond is one of the lead authors of an ambitious attempt to assess observations and models of black carbon, and quantify their uncertainties, that should be published shortly.

The UNEP report puts the average global cooling that could be achieved with black-carbon control measures at 0.3 watts per square metre, taking into account all the cloud effects and other complications. But Drew Shindell, who works on aerosols and climate at NASA and is the chair for the UNEP report, cautions that the range of possible effects runs from twice that much to nothing at all. There is even an outside chance that the proposed black-carbon action could lead to a little warming, though if that were the case the actions on ozone would still provide a net cooling for the package of actions as a whole.

This is why, Mr Zaelke says, it is important to appreciate the regional and local effects too. Dr Ramanathan has amassed a range of evidence that ABCs, the regional effects of which are far greater than global averages, have depressed rainfall in the Indian monsoon over the past decades. Other researchers think the presence of the pollution has an effect within individual monsoon seasons, too, changing patterns of rainfall.



The brown cloud in action over India

Black carbon has particularly pernicious effects on frozen regions. When it falls on snow it greatly increases the amount of sunlight absorbed. Black carbon slopping over India's bathtub rim represents a threat to Asia's high glaciers. Studies of an ice core from Mount Everest show that from 1975 to 2000 the black carbon rose threefold. The Arctic has been warming faster than other places, and faster than models tend to predict. Black carbon from America, Asia and, predominantly, Europe is likely to be one of the reasons. The Arctic Council, which brings together the eight nations with Arctic territories and representatives of indigenous people, has had a working group on short-lived forcings for some time. The council's foreign ministers may announce some sort of action on black carbon when they meet in Nuuk, Greenland, in May.

Double effects

If the Arctic is warming faster than might be expected, other parts of the world are warming slower. One reason for this, widely accepted by scientists but little appreciated by policymakers, is the sulphur given off by coal-fired power stations and some other industrial fossil-fuel use. Sulphur is very good at forming reflecting aerosols that can also make natural clouds both whiter and possibly longer-lasting, which provides an added cooling effect.



Icebreaker or icemaker?

Uncertainty about how strong these effects are is one reason why it is frustratingly hard to use the 20th century's climate trends to predict those of the 21st: no one knows how much greenhouse warming in decades past was masked by the cooling effects of sulphate and other aerosols. It is telling, say some scientists, that global warming was at its most marked from the 1970s to the 1990s, roughly the time when Europe and North America got serious about cleaning up smokestack sulphur. Year-on-year warming slackened in the 2000s-at a time when China's burning of coal for electricity, and its emissions of sulphur, went through the roof, reversing the downward global trend of the previous decades. Coincidence is not causation. But an analysis by Dr Shindell and his colleague Gregory Faluvegi suggests that a typical coal-fired power station in China will take three decades to produce enough carbon dioxide to overpower the initial cooling effects of its sulphates.

This may sound like a free solution to global warming-but not if you have to breathe China's air. Pollution is leading to hundreds of thousands of premature deaths a year. The Chinese government is at the same time *dirigiste* and susceptible to some sorts of public pressure: it has programmes for reducing pollution and has more sulphur scrubbers installed on its plants than America does, though it is not clear how many are in use (they reduce a plant's efficiency). In an ever richer China greater action on sulphur seems all but inevitable, and some sort of air-pollution equivalent of 2008's tainted-milk crisis might bring it about precipitously. At that point the warming effects of recent fossil-fuel emissions will be unmasked.

Something similar is going on at sea. After decades of increasing sulphur emissions by ships, the International Maritime Organisation is reversing the trend by regulating the sulphur content of fuels. Analysis by independent scientists suggests this will save tens of thousands of lives in coastal areas, but could add something like 0.3 watts per square metre of warming-a significant amount. All told, action to get sulphur out of the atmosphere, which is justified on health grounds, could easily warm the world as much, or more, than removing black carbon cools it.

So, what to do about such conundrums? Regulators mostly ignore them; reducing pollution by things like sulphates has been the goal of clear-air legislation around the world for decades, and finding a downside now would not be helpful. Even if one could compare the number of lives lost through action or inaction, a Kantian squeamishness about means and ends might properly stop people acting on the conclusions. For the present, then, the issues are mostly passed over in silence.

One voice that has been raised, though, is that of Dr Crutzen, who worked with Dr Ramanathan on that first study of brown clouds. Now and then volcanoes produce sulphate aerosols in the stratosphere which last far longer than those created by industrial pollution lower down in the atmosphere-they have lifetimes of years, rather than days or weeks. This

longer life means that in terms of cooling per gram, sulphur in the stratosphere outdoes the lower-down stuff by about 25 to 1. So if you were to inject a comparatively small amount of sulphate into the stratosphere while phasing out all industrial emissions lower down, Dr Crutzen noted in a paper published five years ago, you could keep today's cooling levels while getting huge health benefits.

The technical, environmental, political and moral pros and cons of such "geoengineering" have been widely discussed since. The idea gained a lot of credibility from the fact that although Dr Crutzen is one of the people who first warned of man-made damage to the stratosphere's ozone layer-work which won him a Nobel prize-he is not overly worried that added sulphates would add significantly to the damage. But little of the discussion has focused on one of the two key ideas on which Dr Crutzen's argument was built: that geoengineering could solve the problem of pollution-control measures that save people but warm the planet.

The other key foundation was desperation. Despite years of warning, Dr Crutzen saw action on carbon-dioxide emissions getting nowhere; it seemed as if something else was necessary. A similar analysis underlies moves to step up action on short-lived forcings, though here the fresh approach is intrinsically attractive, rather than scary. In fact, geoengineering and action on short-lived forcings have a lot in common. Both might sap urgency from efforts to control carbon dioxide; both raise large uncertainties; both can come about through the work of just a few nations; both throw a light on the nature of human responsibility for the climate. Most people see climate change as an incidental side-effect when caused by burning fossil fuels. If it were engineered by intentionally putting sulphate into the stratosphere they would judge it to be deliberate. But what of reducing the level of sulphates emitted by ships, knowing it is likely to warm the planet? Is that deliberate or incidental?

It is no coincidence that a non-governmental organisation active in the fight against air pollution, America's Clean Air Task Force, now strongly advocates more research into the pros and cons of geoengineering. Jason Blackstock, at the Centre for International Governance Innovation in Waterloo, Canada, points out that black carbon, sulphates and geoengineering are all neglected by the institutions that govern climate policy. He is looking at ways to bring the topics together in the broader context of how nations make choices about the climate. If human action on the climate is ever to be properly deliberate, it must first be properly deliberated.

19th-century China

Clashing with the foreign devils

Feb 17th 2011 | from the print edition

Why China has a long memory

The Scramble For China: Foreign Devils in the Qing Empire, 1832-1914. By Robert Bickers. *Allen Lane; 496 pages; pound30.* Buy from Amazon.com



AS NUMEROUS museums across China testify, the country dwells on its past in order to justify the present. A common theme is that of the "national humiliation" China says it suffered from the mid-19th century until the Communist Party came to power in 1949. To help prove that the party created a "new China" and has the right to rule it, schoolchildren are made to tramp around exhibits showing how foreigners scrambled to dismember China, how they poisoned it with opium, bullied (and sometimes butchered) its people and looted its treasures.

As far as it goes, this outline of what happened is true enough, though opium was commonly used by the Chinese elite before the British started peddling their own produce from India. But the party forbids exploration of anything that might blur this picture. One taboo area is what Chinese nationalists at the time saw as the foreign nature of the last imperial dynasty, the Qing, which collapsed in 1911. Sun Yat-sen, the revolutionary who helped topple it, held the ethnic Manchus who controlled the dynasty in more contempt than the Westerners who had forcibly set up colonial enclaves, the Russians who had carved off part of Manchuria, or the Japanese who had taken Taiwan after a war in 1895. To keep the story simple, the party prefers to view the Manchus as Chinese.

In his history of the foreign scramble for China, Robert Bickers of Bristol University looks mainly at the story of west European and, to a lesser extent, American interaction with the country. The Japanese and Russian strands of this hugely complex tale of an evolving nation-state are picked out in less detail. The anglophone actors take centre stage-rightly, perhaps, at first, given the pioneering role played by the British in China's history of humiliation. Mr Bickers takes 1832 as his starting point, the year when British ships sailed north from the Canton delta, carrying pamphlets, textiles and opium.

As the 1800s unfold, the stage becomes more crowded and Mr Bickers sometimes appears to wander in the detail. His story ends well short of the communist victory that the party claims sent foreign intruders scuttling, although China's ever-pragmatic nationalism allowed Britain to rule over Hong Kong and Portugal to control Macau until the end of the 20th century.

Mr Bickers specifies 1914 as his cut-off date (three years after the Qing's demise), but he describes 1913 as the turning point when "as a multinational enterprise, the scramble for China started to unravel". With the outbreak of the first world war, "the European concert in China was broken", he writes. The story, however, did not reach its climax until the Japanese invasion of Manchuria, which lasted from 1931 to the end of the second world war.

"The Scramble for China" is based largely on English-language sources, which leaves the reader sometimes yearning for more insight from other actors: the Germans and Russians, for example, whose response to the anti-foreign Boxer rebellion in 1900 was particularly brutal. British accounts provide rich illustrations of the clash between two civilisations whose early interactions were dogged by their respective convictions of their own superiority and the barbarity of the other.

Described now as a humiliation, the establishment of foreign settlements was not always seen this way by the Chinese. Mr Bickers says the arrangement was "simply a variant of the long-established practice of allowing sojourning communities to organise their own affairs". The term "unequal treaties", now routinely used in China to describe the agreements reached between foreign powers and the Qing government after several military defeats, was unknown until 1923.

Chinese nationalism, portrayed by the party in terms suggesting it had always been a force, was slow and fitful in its 19th-century awakening.

British nationalism, by contrast, was at its height. The author notes how "humiliation" narratives fortified the minds of the British as they made inroads into China in the 1840s (among them the tale of how China had curtly rejected the request for trade made by Britain's first envoy to China, Lord Macartney, at the end of the 18th century). "They often talked, wrote and taught, as the Chinese came to talk, write and teach, about the lessons of history," he says. This might not bode well for China's future behaviour. As the West's scramble for China showed, rising nations, eager to extend their global reach and easily riled by the slights of other powers, have a habit of behaving badly.

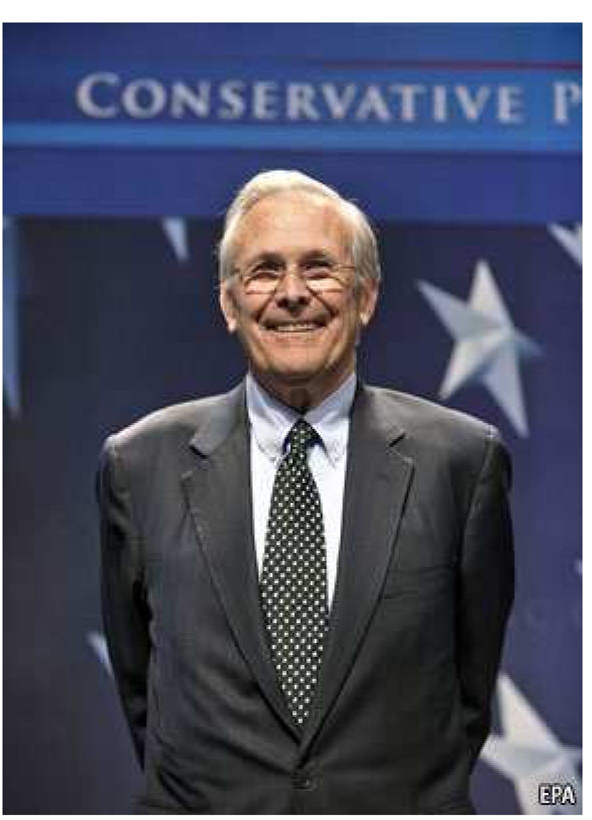
Donald Rumsfeld's memoir

Ducking and diving

Feb 17th 2011 | from the print edition

His study in self-defence

Known and Unknown: A Memoir. By Donald Rumsfeld. *Sentinel; 815 pages; $36. Penguin; pound25.* Buy from Amazon.com, Amazon.co.uk



By George

IT WILL surprise no one that Donald Rumsfeld emerges well from his long memoir. The quagmires in Iraq and Afghanistan, it appears, were everyone's fault but his; ditto the failure to make timely use of America's armed forces when Hurricane Katrina struck in 2005 and ditto a whole string of lesser blunders, such as Gerald Ford's snubbing of Alexander Solzhenitsyn, which occurred while Mr Rumsfeld was chief of staff at the White House back in 1975.

Expecting a mea culpa from a political memoir is like expecting modesty from Lady Gaga: it entirely misses the point. People like Mr Rumsfeld don't write books for the money; they want to justify themselves. And this Mr Rumsfeld does reasonably well. Beyond the failure to admit any guilt, which will disappoint only those who were expecting the improbable, this book is interesting and even enjoyable. Mr Rumsfeld is the man who, in February 2002, used the phrase

"unknown unknowns" to describe the main dangers in any possible confrontation with Iraq. Nearly a decade later, he is still attached to it, as is clear from the book's title. He is rather less proud of his only other memorable line, said in response to the orgy of destruction that followed the fall of Saddam Hussein: "Stuff happens."

The reason why this book is still a good read is the extraordinary amount that the author has contrived to pack into his life: a long spell in Congress, a varied series of jobs in Richard Nixon's dysfunctional White House and then Gerald Ford's, the ambassadorship to NATO and two turns as defence secretary-as both the youngest and the oldest holder of that office-plus a reasonably illustrious business career in periods of enforced political idleness.

If only Mr Rumsfeld had not responded to George Bush junior's call-up in 2001, his career would have been judged by history as valuable and successful. Iraq, of course, has ruined all of that, and Mr Rumsfeld will go down, along with Robert McNamara, as one of the two most calamitous holders of his position. His attempt to shift most of the blame on to others-mainly Condoleezza Rice, the then national security adviser, and Paul Bremer, the civilian administrator of Iraq-is successful up to a point. It is abundantly clear that Ms Rice badly failed to serve up the right policy options to the president. And it is equally clear that Mr Bremer's two first edicts as head of the Coalition Provisional Authority-to fire every member of the Ba'ath party and to disband the Iraqi army-were catastrophic. Valiantly though he tries in these memoirs, Mr Rumsfeld cannot avoid complicity in both of these debacles.

He was, of course, a central participant in the policy meetings that Ms Rice chaired. And it really is no good blaming Mr Bremer: Mr Bremer worked for him, and if Mr Rumsfeld had any argument with the two decisions, he could and should have taken them to the president. One amusing oddity emerges. In his quest to exonerate himself, Mr Rumsfeld is quite prepared to include Mr Bush-rightly-in his list of the guilty, the latest instalment in a lingering feud between Mr Rumsfeld and both generations of Bushes.

Yet despite the vast influence he wielded, especially in the original decision to go to war on flawed evidence, Dick Cheney (who once upon a time was Mr Rumsfeld's assistant) escapes with no hint of blame. A final judgment on how America came to blunder so badly in Mesopotamia is still pending: but this book, as well as being a fascinating history, is a clear statement by one of the defendants.

Index | Books & Arts

New thriller

The roads to perdition

Feb 17th 2011 | from the print edition

A clever what-if

The Afrika Reich. By Guy Saville. *Hodder & Stoughton; 433 pages; pound12.99.* Buy from Amazon.co.uk

NOVELISTS as different as Wilbur Smith and Elmore Leonard have been inspired recently to write about the antics of the pirate-kings of Djibouti. In his first thriller, by contrast, Guy Saville, a young British writer, conjures up a kingdom that might quite easily have become reality had history turned out differently.

"The Afrika Reich" combines two popular literary traditions: Joseph Conrad's dark heart of Africa and the what-if re-creations of the second world war made famous by Philip K. Dick, Len Deighton and Robert Harris. Where Mr Harris's "Fatherland" saw the Nazis take over Britain, Mr Saville starts with the establishment of the Kolonialpolitisches Amt, the Colonial Policy Office, which in 1934 began agitating for the territories Germany lost with the Versailles treaty.

Six years later, these vague initial overtures took shape with the publication in November 1940 of the Bielfield memorandum, which proposed the seizure of the Belgian and French Congos, Equatorial French Africa and a large portion of French West Africa, as well as Nigeria, Kenya and Northern Rhodesia. Naval bases would be built at Dakar, Conakry and the Canary Islands. Madagascar would be a dumping ground for Jews. This vast area was to be exploited for its rich natural resources to fund Germany's future European empire.

In Mr Saville's imaginings, Dunkirk marked the end of Britain's war and the beginning of an uneasy peace with Hitler. By 1952 Britain and Germany have divided Africa. Britain's colonies are ailing, whereas the German territories are ruled by a demonic warlord, Walter Hochburg, who is building a network of indestructible autobahns while at the same time cleansing the area of Africans.

Burton Cole, a former mercenary, is offered one last contract and the chance to settle an old score with Hochburg. He accepts, despite his own misgivings and the protests of the woman he loves. Cole's mission takes him to Conrad's old killing ground, Kongo. Mr Saville uses Cole's memories of planting quinces in England with Madeleine, his lover, and an odd old friendship with a fellow mercenary, Patrick, to round out his hero's character and draw an artful contrast with Hochburg and the unspeakable world he has come to desire.

Mr Saville adds cruel intent to Conrad's "the horror, the horror". His plot is clever, imaginative and, in its finale, wholly unexpected. In a crowded field, "The Afrika Reich" stands out as a rich and unusual thriller, politically sophisticated and hard to forget.

Edith Sitwell

Prickly original

Feb 17th 2011 | from the print edition

She was as highly regarded as W.B. Yeats and T.S. Eliot

Virago; 532 pages; pound25

Edith Sitwell: Avant Garde Poet, English Genius. By Richard Greene. *Virago; 532 pages; pound25.* Buy from Amazon.co.uk



Her nose was as sharp as a pen

DAME EDITH SITWELL (1887-1964) proclaimed that she was not eccentric, just "more alive than most people...an unpopular electric eel in a pool...of catfish". If not eccentric, she was certainly gloriously original; and today her most popular book is "English Eccentrics".

The Sitwell family had long been unusual. Based at Renishaw Hall, a gloomy mansion outside Sheffield, in the north of England, they made a fortune from manufacturing nails. The estate went to a cousin, Sitwell Hurt, and he became Sir Sitwell Sitwell. (Evelyn Waugh, godfather of Edith when she became a Roman Catholic, suggested that her "hypersensitive" brother, Osbert, should resume the old name and call himself Sir Hurt Hurt.)

Edith had a wretched childhood. Her father, Sir George, had few redeeming qualities. While at school at Eton he supposedly invented a toothbrush that played "Annie Laurie" and a revolver for killing wasps, and he was a great maker of gardens-but he really preferred boys. When the family was painted by John Singer Sargent, he asked the artist to emphasise the irregularity of Edith's nose. The incensed Sargent made it straight and Sir George's crooked. Edith's mother, Lady Ida, was, if anything, worse. Ill-tempered and alcoholic, she gambled, incurred huge debts, spent three months in Holloway prison after a conviction for fraud, and told her daughter that she was better-born than her.

Edith suffered from curvature of the spine and was forced to wear a heavy metal cage. She endured back pain all her life and became depressive, lame and alcoholic. She liked to compare her suffering and genius to those of the "deformed" poet, Alexander Pope, and she became unnaturally sensitive to criticism of her work.

Edith's governess, Helen Rootham, a talented musician with "a fervour for the arts", helped Edith to escape to London, Paris and Berlin and to establish herself as a writer and literary hostess. From 1914 the two women lived in a spartan flat in unfashionable Bayswater. Edith published her first book of poems, edited the ground-breaking "Wheels" anthologies of poetry, and started the weekly gatherings that for many years attracted the great artists, musicians and writers of the day. W.B. Yeats, T.S. Eliot, Siegfried Sassoon, Virginia Woolf, Robert Graves, E.M. Forster, the young Graham Greene and countless others would make the long ascent to her flat, read stories and poems, and exchange compliments and insults over strong tea and halfpenny buns.

Despite her prickly nature and sense of persecution Edith Sitwell was always quick to recognise and praise a talented new writer. From Aldous Huxley and Wilfred Owen to Dylan Thomas and Muriel Spark, she made "heroic efforts" to promote their work.

The Sitwells became celebrities and gave readings in Britain and America, sometimes inaudibly. For most of her life, until she sold her manuscripts and paintings by her difficult friend, Pavel Tchelitchew, Edith was short of money. Family bequests went to her brothers; she supported the Rootham sisters and others; and she was extravagant. Public performances and popular prose works were necessary distractions from the writing of poetry.

Richard Greene's excellent biography of Edith Sitwell is informative, witty and entertaining. It is a timely reminder of a writer exotic in appearance and character whom Mr Greene describes as "Britain's outstanding woman poet of the 20th century". That may be so-in the 1920s Edith Sitwell was spoken of in the same breath as Yeats and Eliot-but her reputation has declined. For all Mr Greene's passionate advocacy and fine explanation of her technique, she seems destined to be best remembered for her collaboration with William Walton on "Facade", an entertainment, and a single poem from 1941, "Still Falls the Rain" ("the quintessential poem of the blitz"), as well as her quite magnificent eccentricity.

Films about Algeria

Years of fire

Feb 17th 2011 | from the print edition

Two very different films explore Algeria's turbulent past



So help me God

OF THE many troubled chapters in modern history, few have left so deep a legacy of distrust, grievance and hurt as the 1954-62 Franco-Algerian war. Unlike France's other territories in the Maghreb, Algeria was a French administrative *departement*, run and settled not as a colony but as an extension of France itself. This stirred quite particular passions. Albert Camus, the Nobel prize-winning novelist who was born and educated in French Algeria, wrote in 1955 that he was "hurting about Algeria the way others hurt in their lungs". Some 1.5m French soldiers fought to keep it French. The war brought down the Fourth Republic, returned Charles de Gaulle to power, and left rage in its wake.

"The loss of Algeria was experienced in France as a sort of amputation," says Benjamin Stora, a French historian, "The subject is still burning, and the war of memories is fierce." To this day, there is no historical consensus across the Mediterranean, only rival versions of the events that led to Algerian independence, after 132 years of French rule. They divide not only French and Algerians, but the French and the *pieds-noirs*, white settlers who fled after independence with

their belongings in a suitcase. For years France covered up the use of torture and summary executions; Algerians also denied atrocities against the French.

Even now, neither side seems able to let the wound heal. As recently as 2005 the French parliament passed a law referring to the "positive role of the French presence overseas, notably in north Africa", a clause later removed after an outcry. Furious Algerian deputies then tried to criminalise French colonialism. Within France a big population of Algerian descent wrestles with the conflicted identity. In Algiers there is still no road nor public building named in memory of Camus.

Amid these competing narratives, film-makers have also had their say, starting with Gillo Pontecorvo's 1966 masterpiece, "The Battle of Algiers". This year Algeria and France each nominated a film about Algeria for an Oscar in the best foreign-film category. Algeria sent "Hors-la-Loi" ("Outside the Law"), directed by Rachid Bouchareb, and France selected "Des Hommes et Des Dieux" ("Of Gods and Men"), by Xavier Beauvois. The first, partly backed by French money, was a commercial flop in France; the second, which opens in America on February 25th, an unlikely hit. Only the Algerian entry made it into the final Oscar line-up, which is a pity because the French one stays in the mind longer.

"Outside the Law" is a fast-paced glossy gangster movie out to make a political point. Mr Bouchareb's previous film, "Indigenes" ("Days of Glory"), brought home to French audiences the contribution of north African soldiers to liberating Europe from Nazi occupation. Embarrassed, the French government promptly raised the pensions of such veterans to match their French counterparts'. This time Mr Bouchareb's starting point is the 1945 Setif massacres, which began when unarmed Algerians, marching to celebrate victory in Europe and to press nationalist demands, were gunned down by French forces; many thousands died in the subsequent repression. Told through the eyes of three Algerian brothers, who lose their father in the massacres, it follows their reunion years later in France, and the different choices each makes as an underground Algerian resistance movement takes hold among automobile workers and the shantytowns of 1950s Nanterre, in the outskirts of Paris.

"Outside the Law" is a respectable action film, which turns the spotlight on a disturbing episode of history. Mr Bouchareb says he wanted to show that revolution "chews people up and spits them out". He unflinchingly depicts the barbarism on both sides.

"Of Gods and Men", by contrast, is not about politics. It is a remarkable study of spirituality and sacrifice, and how men of faith cope when their ideals are challenged by violent reality. Based on a true story, it follows a group of Cistercian monks, living modestly among poor villagers in the little Tibhirine monastery in the Algerian Atlas Mountains. As the Algerian civil war and Islamist terrorist attacks intensified around them in the mid-1990s, they were warned that their lives were at risk, but chose, after much collective agonising, to stay. In 1996 seven of them were kidnapped; only their decapitated heads were ever found. An Islamist terror group claimed responsibility.

The film has spellbound French audiences, moved by the simplicity and faith of the Tibhirine monks, in an age of materialistic excess, celebrity froth and empty churches. Its cramped cinematography mirrors their daily lives. The monks are human, and they rage and doubt, torn between a survival instinct to leave and a spiritual calling to stay. They run a health clinic for villagers and fear abandoning them to terror. "It is mad to stay, like it is mad to become a monk," says Brother Christian wryly, the group's leader, played by Lambert Wilson.

"Of Gods and Men" is not without flaws. Its "Last Supper" scene at the end, at which the monks share red wine, tears and smiles in silent contemplation of their fate, to the swelling chords of Tchaikovsky's "Swan Lake", is not quite controlled enough to sustain the heavy emotion. Nor does the film ever confront the post- colonial questions that hover over the Algerian villagers' dependence on the French monks. But such shortcomings are readily forgiven. It is a deeply affecting film, with a forceful message. In a posthumous letter, delivered as a voice-over as the monks are led away to their deaths, Brother Christian urges those who outlive him not to caricature Islam, nor to blame all Algerians for his murder-a message more pertinent today than ever.

Index | Books & Arts

Political theatre

Marathon training

Feb 17th 2011 | from the print edition

America's generals learn about Afghanistan through the stage

HISTORY may repeat itself, but we are rarely the wiser for it. And Afghanistan, that complicated, hapless place, has long been a victim of its geography. These are among the lessons of "The Great Game: Afghanistan", a marathon of a dozen plays about the history of Western involvement in the country. Nicolas Kent, the artistic director of the Tricycle Theatre in London, commissioned these works from different writers at a time when he felt the public had stopped caring about Afghanistan. After a successful first run in London in 2009 "The Great Game" returned to Washington, DC, in mid-February at the behest of the Pentagon. Officials at the Defence Department thought it would be a good primer on Afghanistan for serving soldiers, veterans and politicians.

The plays are impressive for the way they convey the complexity of the country's past without wagging fingers. Presented chronologically in a nearly eight-hour trilogy, the cycle begins in Jalalabad in 1842, during the British and Indian army's bloody retreat from Kabul ("Bugles at the Gates of Jalalabad" by Stephen Jeffreys), and continues up till 2010, as a British soldier struggles to adjust to life at home after his time in Helmand ("Canopy of Stars" by Simon Stephens). The title, "The Great Game", an expression popularised by Rudyard Kipling, is a reference to the way the British and Russian empires jockeyed for position in the region in the 19th century.

Performed by an unflagging cast of 14, the plays are a bit uneven and occasionally heavy on expositional details. But they are consistently engaging, and the accumulative effect is powerful. Viewers come away with a sense of Afghanistan's long history as a battleground for foreign interests and rival powers. Inevitably some moments are heavy with dramatic irony, such as in Lee Blessing's "Wood for the Fire", in which an American CIA operative working in Pakistan in the 1980s declares, "We can't worry about tomorrow's wars today." Yet this cycle is nuanced enough not to cast blame.

These plays "bring an immediacy to skirmishes read about in books," said Josh Frey, an American serviceman. A member of the armed forces' new "AfPak Hands" programme, which immerses soldiers in language and culture training before sending them off to Afghanistan and Pakistan, he found that "The Great Game" offered a "personal connection" to the information he has been studying. Chris Groves, a commander in the Royal Navy, added that the cycle not only places the current war in context, but also gets across how difficult it is to make progress there.

The plays were put on at the Shakespeare Theatre with help from the British Council and the Bob Woodruff Foundation, an American non-profit organisation that seeks to help injured service members. The Pentagon is keen for more partnerships with the private sector, such as "Wartorn: 1861-2010", a documentary about post-traumatic stress disorder which HBO broadcast in November, and which helped convey the needs of soldiers to a wider audience. "There is an assumption that the arts and our men and women in uniform are from different planets," a Defence Department spokesman told *The Economist*. "It's not the case. We're all in this together."

Index | Obituary

Maria Altmann

Feb 17th 2011 | from the print edition

Maria Altmann, pursuer of looted paintings, died on February 7th, aged 94



"SUFFERING" was the first word that came to Maria Altmann when she was asked about Aunt Adele Bloch-Bauer. Frail, dark, beautiful, always with a headache. Children annoyed her, because she had none of her own; small-talk made her furious, because she wanted to discuss religion and politics. ("My darling," Mrs Altmann would sigh, "Adele was a modern woman living in the world of yesterday.") Adele smoked like a chimney, and would drift around in loose white gowns with a gold cigarette-holder. Or she would sit, regal in black, holding court for musicians, artists and writers in the salon of her huge house just by the Vienna Staatsoper.

But the Adele the world came to know was as Gustav Klimt had painted her in 1907. It took him four years, longer than he spent on any other painting. He placed her in a swirling gown within a blaze of gold rectangles, spirals and Egyptian symbols from which she looked out in nervous loveliness, the epitome of Vienna's Golden Age. Her hands were strangely bent because, Mrs Altmann knew, she had a crippled finger, which she always tried to hide. She was also fairly sure that Aunt Adele and Klimt, with his satyr face and wild sexuality, had had a mad affair; her mother angrily denied it, said it had been just "an intellectual thing", but you only had to look at her aunt's dark, languorous, faintly smiling eyes to think otherwise.

"Golden Adele" haunted Mrs Altmann for the rest of her days. As a girl she led much the same "beautiful" life, dressed up in silk and organza, in a stately townhouse nearby, where artists and philosophers came and went to the sound of her father playing on a Stradivarius cello. After 1925, when Adele died at 43, the regular Sunday brunch at Uncle Ferdinand's would always include a viewing of the Klimt portrait, hung in Adele's bedroom in a sweet haze of fresh flowers. Four other Klimts also hung there. Three were landscapes: a beechwood, a dappled apple tree, houses by a river. The other was a later painting of Adele, pale and strained, standing in a big hat with her arms loose amid fauve colours of red, mauve and green.

All five paintings were stolen when the Nazis took Austria over in 1938. Mrs Altmann remembered the jubilation of the *Anschluss*, the church bells ringing; only the Jews wept. By then, she was just married to Fritz Altmann; and she sometimes wore, next to her skin, some of Adele's diamonds, which Uncle Ferdinand had given her as a wedding present. The Nazis stole them in short order, as they also seized Ferdinand's entire art collection, his delicate porcelain and his sugar refinery. "Portrait of Adele Bloch-Bauer I", became the symbol of all that the family had lost.

For many years-after she had fled to America with Fritz and made a new life in California, he working at Lockheed, she selling cashmere-Mrs Altmann supposed that the Klimt paintings had legitimately ended up in the Austrian National Gallery. But when the law changed in 1998, in favour of restitution, she vowed to get them back. The Austrian government refused. Adele's will, they said, had given the paintings to the gallery. And, they might have added, all Austria now thought it owned her golden, Klimtian beauty.

Battling in cashmere

Mrs Altmann went to war. At 82, in cashmere and silk scarves, she made an unlikely fighter. Her dress boutique in Cheviot Hills, where clients sat in her living room drinking *Kaffee mit Schlag* and nibbling on sausage, was probably the last vestige of a Viennese salon in the New World. Golden Adele, in paperweight form, lay on the coffee table and was rubbed hard for luck. But Mrs Altmann was all persistence, charm and energy-and the law was on her side.

Adele's will, as it turned out, only made a "kind request" to her husband to leave the paintings to the gallery. It was not binding, and in any case Mrs Altmann knew Adele's mind. She wanted the paintings left to the Vienna she knew, the vibrant, glittering, tolerant city of the early 20th century; not to a place from which all Jewish life had gone. She would never have felt at home there, as Mrs Altmann no longer did when she visited, defying security guards at the National Gallery to be photographed beside Aunt Adele, and saying loudly: "That painting belongs to me."

In 1999 she and her lawyer, Randol Schoenberg, tried to sue the Austrian government. When that proved too expensive, they argued as far as the Supreme Court that the case should be heard in America. They won; but then, in 2004, they went to independent arbitration. Three Austrian academics decided that the paintings should be returned. In 2006 Aunt Adele and the rest arrived with fanfare in Los Angeles: the largest single return, in monetary terms, of Nazi-looted art.

Only a few months later they were sold. All but one went away to private houses. The exception was Aunt Adele. She had always wanted her golden portrait in a public gallery, Mrs Altmann said, and so it was "beautiful" that Ronald Lauder, a businessman and philanthropist who had loved Adele's face from boyhood, instantly paid $135m to enshrine her in his Neue Galerie in Manhattan. Of course, she was too far away for many visits now. But Mrs Altmann could imagine her there, glowing and frail, wearing just the faintest aroma of those long-vanished cigarettes.
